Department of Health Care Policy and Financing

Introduction

The Department of Health Care Policy and Financing (HCPF) is the state agency responsible for developing financing plans and policy for publicly funded health care programs. The principal programs administered by HCPF include the Medicaid program, which provides health services to eligible needy persons, and the Children's Basic Health Plan (CBHP), which furnishes subsidized health insurance for children 18 years or younger in low-income families not eligible for Medicaid. Please refer to the introduction in the Department of Health Care Policy and Financing chapter within the Financial Statement Findings section for additional background information.

The following comments were prepared by the public accounting firm of BKD, LLP, which performed the Fiscal Year 2003 audit work at the Department of Health Care Policy and Financing.

Eligibility Databases Oversight

Our audit reviewed the Department's procedures for complying with federal requirements for determining the eligibility of the individuals who receive benefits and the providers who receive reimbursements under the Medicaid program. HCPF has established an agreement with the Department of Human Services (DHS) to oversee the determination of an individual's eligibility for Medicaid through county departments of social services. County departments are responsible for inputting information related to an individual’s eligibility into either the Client Oriented Information Network (COIN) or the Colorado Trails system. These systems track and monitor beneficiary eligibility. While Colorado Trails tracks Medicaid eligibility for children within DHS's Child Welfare programs, including those within foster care homes and residential treatment centers, and for individuals within its Division of Youth Corrections, COIN tracks eligibility for all other individuals. The information in COIN and Colorado Trails is used by the Medicaid Management Information System (MMIS) to determine whether or not a claim should be paid on the basis of the individual's eligibility.

Our audit tested individual eligibility for 90 expenditures by reviewing either files from the county departments of social services or information maintained within the COIN and Colorado Trails systems. We noted several inconsistencies between data in individuals' files and the data maintained in COIN. The inconsistencies noted are as follows:

- In six instances, we noted that although the claims in our sample were appropriately paid under Medicaid, documentation in the file indicated the beneficiary became ineligible subsequent to the initial claim sampled. We found that capitation and prescription drug claims totaling $704 ($217 for drug benefit payments and $487 for capitation payments) were submitted and paid for dates of service while the individual was ineligible. The Department provided no evidence that it had attempted to recover the overpayments as of the time of our audit.

Department staff indicate that they attempt to recoup any erroneous capitation payments in the subsequent year. In order to ensure that recoupment efforts are more effective, we believe the Department should perform recoupments more timely and frequently during the fiscal year.

- For one of the six claims noted above for $87, although the individual became deceased subsequent to the claim sampled, COIN did not reflect the date of death at the time of our review more than two months after the beneficiary's date of death.

The Department staff reports that they are evaluating the feasibility of an automated link between the Department of Public Health and Environment's Vital Statistics data and the Colorado Benefits Management System (CBMS), anticipated to be implemented in April 2004, to ensure greater accuracy of the data on deaths in the State and prevent inappropriate payments for service. In the interim, the Department should establish procedures requiring county departments of social services to update the COIN system in a timely manner for the deaths of Medicaid beneficiaries and perform random testing of information in COIN to ensure eligibility information contained in the system is accurate.

Although we recommended in our two prior fiscal years' audits that the Department perform random testing of eligibility determination accuracy so all program areas would be periodically tested and the risk of benefits being paid on behalf of ineligible individuals would be reduced, the Department has reported that it does not perform random testing of eligibility across all of the program areas. The Department indicated that it would develop a sampling methodology for use in CBMS that will allow it to sample all eligibility categories.

Until the CBMS system is implemented, the Department has chosen, through a federally approved pilot project, to perform eligibility testing targeted toward program areas considered to be of high risk. For example, for Fiscal Year 2003 the Medicaid Eligibility Quality Control Unit (MEQC), the unit responsible for reviewing eligibility determinations at the Department, was to perform a pilot review that targeted Elderly, Blind, and Disabled/Home and Community Based Services 300 percent cases. These are cases in which the individual's income does not exceed 300 percent of the standard level of need for the designated category of assistance. The pilot was projected to begin in June 2002 and be completed by November 2002. However, we determined that as of the end of Fiscal Year 2003, the Department had not completed a final report for this review. Since this was the only program area selected for review through the Department's pilot project in Fiscal Year 2003, this means that eligibility determination reviews were not completed for the fiscal year. Because the Department has opted to perform targeted reviews as the means for reviewing eligibility determinations, it is essential that the targeted reviews be completed on a timely basis.

(CFDA Nos. 93.777, 93.778; Medicaid Cluster; Eligibility.)

Recommendation No. 27:

The Department of Health Care Policy and Financing should improve oversight of Medicaid eligibility data contained in the COIN and Colorado Trails systems to ensure that benefits are paid only to individuals eligible for the Medicaid programs by:

a. Initiating and completing targeted pilot reviews on a timely basis.

b. Establishing procedures to ensure that COIN is updated accurately to reflect the date of death for all beneficiaries.

c. Performing random testing of eligibility information included in the COIN and Trails systems compared with information in individuals' files.

d. Performing recoupment more frequently than once a year for payments made on behalf of individuals not eligible for Medicaid.

Department of Health Care Policy and Financing Response:

a. Agree. The Department is reorganizing the Medicaid Eligibility Quality Control (MEQC) unit in the Benefits Coordination Section to improve the timeliness of pilot reviews. Staffing has been changed to permit three full-time reviewers of case files and to shift all supervisory duties to the manager of the section. The Department Data Section is also providing additional expertise on the data analysis necessary to identify the universe of cases and to establish an appropriate sample size.

   Implementation date: December 2003.

b. Agree. Currently the county departments of social services enter date of death information when they are notified of death of a client by a relative or other interested party. This process does not guarantee the most accurate or timely data on clients. The Department is evaluating the feasibility of an automated link between the Bureau of Vital Statistics and the CBMS eligibility system to ensure more accurate data. The Department has a CBMS change request on file for this purpose; since the request was not part of the original CBMS scope of work, the request will be prioritized with other post-implementation changes to be worked between the two agencies (HCPF and DHS).

   Implementation date: June 30, 2005.

c. Agree. This type of random testing will be implemented as a standard MEQC function.

   Implementation date: July 2004.

d. Agree. Medicaid eligibility is dynamic, and retroactive eligibility determinations are very common, especially in aid categories such as newborns or foster care. Once the eligibility data are reasonably complete (between 6 months and 1 year after the end of the fiscal year), the State matches capitations paid to eligible months. Capitations paid without corresponding eligibility are then recouped. Because of the need for runout in the file and because the creation of the aggregate eligibility file is very labor-intensive, the Department has been doing recoupments once a year. However, the Department will move to biannual recoupments effective July 2004.

   Implementation date: July 2004.

Allowable Costs

Under the federal Medicaid program, expenditures must meet established allowability requirements to qualify for reimbursement by the federal government. For Fiscal Year 2003 the Department reported total Medicaid program expenditures of over $2.6 billion, representing a federal share of about $1.35 billion. The audit tested a stratified sample of 90 program expenditures and credits with a net value of $11,270,615 (federal share $5,718,710) for allowability under Medicaid regulations.

We identified errors in our sample similar to those found during the previous four fiscal years' audits. Specifically, our evaluation identified two program expenditures totaling $186 (federal share $93) that did not comply with one or more of the allowable cost criteria for the Medicaid program. The errors were as follows:

- **Improper Benefits.** The Qualified Medicare Beneficiary (QMB) and Special Low Income Medicare Beneficiary (SLIMB) programs are two Medicare supplementary benefit programs provided by the Department under the Medicaid program. While QMB benefits consist of Department payments covering Medicare part A and B premiums, co-payments, deductibles, and 20 percent of any costs Medicare does not pay, SLIMB Medicaid benefits consist of payments only for Medicare part B premiums. We noted that one individual was coded in the COIN system as eligible for, and also received, QMB benefits when he was only eligible for SLIMB benefits because his income exceeded the QMB income limit. For this claim, the individual's Medicare deductible in the amount of $9.20 was incorrectly paid by the Department.

- **Prescription Drug Claims.** Medicaid regulations require that a prescription recipient obtain the prescription within 14 days and sign for the receipt in order for prescription costs to be billed to Medicaid. During our testing we noted that for one claim in the amount of $178 out of eight prescription claims tested, the Department was unable to provide documentation indicating that the prescription was received by the beneficiary.

The Department reports that manual processes are required in many instances to enter beneficiary eligibility data into the COIN system. These processes increase the risk of improper Medicaid payments being made. While the Department is continuing its efforts to implement CBMS by April 2004 in order to eliminate the many manual processes that are required to enter beneficiary eligibility data into the COIN system, until the system is implemented, the Department continues to be at risk for providing inappropriate payments that will be required to be repaid to the federal government. As noted in the previous recommendation, the Department should perform periodic testing between the information in individuals' case files and the information maintained on COIN and Colorado Trails to ensure data in these systems are accurate and complete.

During the fiscal year, the Department implemented procedures to perform periodic reviews of prescription drug providers to ensure signatures are obtained for drugs dispensed. The Department must continue these efforts to ensure the drug benefits are provided in accordance with the implementing instructions in the Medicaid Manual to minimize improper payments and returned federal funds.

(CFDA Nos. 93.777, 93.778; Medicaid Cluster; Activities Allowed or Unallowed.)

Recommendation No. 28:

The Department of Health Care Policy and Financing should ensure payments are made only for allowable costs under the Medicaid program by continuing its internal reviews for prescription drug claims to ensure payments are made for properly supported drug claims.

Department of Health Care Policy and Financing Response:

Agree. The Department's Quality Improvement Section will continue to conduct quarterly random reviews of pharmacy provider compliance with return to stock requirements.

Implementation date: Ongoing.

Provider Eligibility

The Department has contracted with Affiliated Computer Systems (ACS), its fiscal agent, to determine provider eligibility to receive reimbursement for services provided under the Medicaid program. As part of this contract, the fiscal agent is required to maintain documentation to support that the medical providers are licensed in accordance with federal, state, and local laws and regulations. Under federal regulations, the Department of Health Care Policy and Financing remains ultimately responsible for the Medicaid program. This means that the Department must have controls in place to ensure compliance with state and federal regulations for all aspects of the Medicaid program, whether performed directly by the Department or by another entity through contractual or other formal agreements.

For our Fiscal Year 2003 audit, we reviewed a sample of 79 provider files maintained by ACS. We determined that only 14 of the 79 provider files (18 percent) had documentation supporting licensure in the State to provide services, electronic data interchange agreements, and provider agreements. The Department was able to subsequently request and resolve provider eligibility issues for sampled items. However, the Department must ensure that documentation is improved so information is obtained and retained on a prospective basis rather than on a retrospective basis.

The Department is attempting to address the documentation problems by continuing in its fourth year of a five-year reenrollment plan to improve documentation of provider eligibility. During Fiscal Year 2003 the Department's provider enrollment committee continued working on the strategic plan for provider reenrollment. The Department continued to terminate providers with unknown addresses, providers with only post office box addresses, and providers with no claim activity for the past four years. Further, the Department continued with a manual review of licensing information from the Department of Regulatory Agencies, and if licenses were expired, revoked, or inactive, the providers were terminated in MMIS. In addition, the Department continued development of the new provider enrollment and electronic data interchange agreement, which is compliant under federal Health Information Portability and Accountability Act (HIPAA) requirements. The agreement is in the finalization process and the Department will require all providers to complete, sign, and return it in Fiscal Year 2004. Any providers failing to complete the reenrollment process will be terminated from participation in the Medicaid programs.

If payments are made to ineligible providers, the Department would be required to refund any monies previously reimbursed to the State by the federal government. Because of this, the Department should continue efforts to ensure that the fiscal agent meets requirements related to provider eligibility.

(CFDA Nos. 93.777, 93.778; Medicaid Cluster; Special Tests and Provisions-Provider Eligibility.)

Recommendation No. 29:

The Department of Health Care Policy and Financing should continue to improve controls over provider eligibility by:

a. Continuing to monitor the fiscal agent's review of all provider files to ensure each file includes a current provider agreement and documentation of applicable provider licenses and registrations.

b. Developing procedures to ensure provider licensing information is updated on an annual basis to ensure its accuracy for changes that occur throughout a given year.

Department of Health Care Policy and Financing Response:

a. Agree. The fiscal agent is completing a review of all active provider files since 1998 to determine missing provider information. The missing information will be requested and recorded in the provider file by July 1, 2004. In addition, the fiscal agent continues to conduct quality assurance activities over provider enrollment documents.

   Implementation date: July 1, 2004.

b. Agree. Until such time as a unique identifier is finalized into law under the Health Insurance Portability Accountability Act and both the Department of Regulatory Agencies and the Department of Health Care Policy and Financing have completed the remediation, electronic matches cannot be performed. The Department continues to conduct a manual review throughout the year of all provider licenses. Providers found to be ineligible are terminated from the Medicaid program.

   Implementation date: Ongoing.

Cash Management Improvement Act

The federal Cash Management Improvement Act of 1990 (CMIA) requires the timely transfer of funds between a federal agency and a state so neither party incurs a loss of interest on the funds. Under CMIA, the State must enter into a formal agreement with the federal Treasury Department to establish reimbursement schedules for selected federal programs awarded to the State. In Colorado, the Office of the State Treasurer prepares and submits the CMIA Agreement to the federal Treasury.

CMIA allows for two draw methods, also referred to as funding techniques, for drawing federal funds: the composite and average methods. While the composite method allows an agency to accumulate expenditures for a week and then request federal reimbursement for the accumulated total of incurred expenditures, the average method allows an agency to request federal reimbursement based on an individual day's expenditures.

Although the State's CMIA Agreement in place for Fiscal Year 2003 indicates that HCPF is to use the composite method for requesting federal reimbursement of Medicaid program expenditures, we noted during our testing of the Department's compliance with CMIA that the Department is consistently applying the average rather than the composite draw technique. Based on the federal Financial Management Service's review of Colorado's 2002 annual CMIA report, the State's drawing of federal funds does not appear to result in a material interest liability, since the determined net federal interest liability was only $1,241. Nonetheless, the information contained in the CMIA Agreement should be accurate. Thus, the Department should notify the Office of the State Treasurer of the discrepancy and work with the Office to determine which funding technique should be used for the Medicaid program and to update the Agreement as deemed appropriate.

(CFDA Nos. 93.777, 93.778; Medicaid Cluster; Cash Management.)

Recommendation No. 30:

The Department of Health Care Policy and Financing should work with the Colorado Office of the State Treasurer to determine the appropriate funding technique that should be used for the State's Medicaid program under the Cash Management Improvement Act and update the Treasury-State CMIA Agreement as deemed appropriate.

Department of Health Care Policy and Financing Response:

Agree. We will work with the Colorado Office of the State Treasurer to ensure that our Treasury-State agreement is amended and reflects that the Department uses the average draw method. It is important to note that this discrepancy in the agreement did not create an interest liability for either the State or the federal government. This agreement amendment will be completed by June 30, 2004.

Implementation date: June 30, 2004.

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Department of Higher Education

Introduction

The Department of Higher Education was established under Section 24-1-114, C.R.S., and includes all public higher education institutions in the State. It also includes the Auraria Higher Education Center, the Colorado Commission on Higher Education, the Colorado Council on the Arts, the Colorado Student Loan Division, the Colorado Student Obligation Bond Authority, the Colorado Historical Society, and the Division of Private Occupational Schools. Please refer to the introduction in the Department of Higher Education chapter within the Financial Statement Findings section for additional background information.

Board of Regents of the University of Colorado - University of Colorado

The University of Colorado was established on November 7, 1861, by an Act of the Territorial Government. Upon the admission of Colorado into the Union in 1876, the University was declared an institution of the State of Colorado, and the Board of Regents was established under the State Constitution as its governing authority.

The University consists of a central administration and four campuses: Boulder, Denver, Colorado Springs, and Health Sciences Center. These four campuses comprise 32 schools and colleges.

The following comments were prepared by the public accounting firm of Deloitte & Touche LLP, which performed the Fiscal Year 2003 audit work at the University of Colorado.

Sponsored Programs Administration

The University of Colorado's Internal Audit Department conducted a review to evaluate the controls and processes within the University of Colorado at Denver's (UCD) Division of Sponsored Programs Administration. UCD receives approximately $20 million in total contract and grant awards per year, and incurred over $14 million in expenditures on federally sponsored projects during Fiscal Year 2003.

The internal audit report, dated September 24, 2003, identified a number of internal control weaknesses over the administration of sponsored programs that contributed to several issues of noncompliance with sponsored program requirements.

The following issues were identified during the review:

- The Internal Audit Department identified some cases of improper budget modifications, billings in excess of costs, and improper cash transfers. The monetary impact of these totaled $15,719. In these instances, excess funds should have been refunded to federal sponsoring agencies but were not. As a result, the items shown below are considered questioned costs under federal guidelines.

University of Colorado at Denver
Schedule of Questioned Costs
Fiscal Year Ended June 30, 2003

CFDA	Program Name	Sponsor	Amount	Description
47.076	Education and Human Resources	National Science Foundation	$378	Overbilled the sponsor
64.125	Vocational and Education Counseling	Department of Veterans Affairs	$7,224	Overbilled the sponsor
17.249	Child Care Apprentice Program	Department of Labor	$6,572	Unexpended balance and should be returned
84.027	Special Education Grants	Department of Education	$1,545	Overbilled the sponsor

Source: Deloitte and Touche LLP analysis of University of Colorado data.

- There is a lack of appropriate segregation of duties between the Pre-Award and Post-Award Offices. For example, Post-Award Office personnel have the ability to post budgets and budget modifications, make journal entries, and perform billings. This situation allowed some improper transactions to occur. The posting of budgets and budget modifications should be verified by the Pre-Award Office.

- New projects were not timely established in the PeopleSoft system, and project costs were charged to an open program/project. This caused numerous expense transfers needing to be made to move costs to the appropriate projects once established. This practice resulted in process inefficiencies because of the need to make accounting entries to transfer costs from one project to another.

- Three of twelve projects reviewed were incorrectly identified by contract type in the PeopleSoft system. The contract type identifies how projects should be handled based on whether they are fixed price, cost reimbursable, or some other type. Identification of contract type is important for the processes of billing and analysis, as well as for identification of the appropriate regulations to follow in working with the grant.

- Costs initially charged to one project are sometimes transferred to another project. Documentation of cost transfer journal entries was consistently found to be insufficient to support the reason for the transfers. The explanations on the journal entries described the entries but did not explain why the transfers were necessary as required by federal regulations.

- Campus department administrative personnel are not familiar with federal compliance requirements and rely heavily on the Post-Award Office. UCD has little procedural guidance to clearly identify the responsibilities and authorities of the various parties involved in federal financial compliance. Having appropriate guidance and providing training to administrative personnel involved with sponsored programs is important for their understanding of federal rules and regulations.

- Closeout of sponsored projects should take place in a timely manner to ensure proper fiscal management and compliance with federal rules and regulations. All active projects that were past their project end dates were reviewed to determine if closeouts were occurring timely. Thirty-one projects had end dates prior to July 1, 2002. Nine of these were federally sponsored projects. Internal Audit Department's review of the projects with the Post-Award Office revealed there was uncertainty over how to resolve many of the outstanding cash balances/deficits.

The weaknesses identified above are the result of responsibilities not being clearly established, duties not being appropriately segregated, and training on sponsored program administration not being performed for all employees on a routine basis.

(CFDA Nos. 47.076, 64.125, 17.249, 84.027; Education and Human Resources, Vocational and Education Counseling, Child Care and Apprentice Program, Special Education Grants; Other.)

Recommendation No. 31:

The University of Colorado at Denver should report the questioned costs identified in the Internal Audit Department's report to the appropriate federal sponsors and refund the amounts owed.

University of Colorado Response:

Agree. The federal sponsors subject to overcharges identified in this report either have been or will be contacted and apprised of the amount owed as follows:

- Education and Human Resources: When the error was discovered, a letter was written to the sponsoring agency and the amount owed was returned prior to the issuance of this report.

- Vocational and Educational Counseling: This represents a multi-year award that had been treated by the grantor agency and the University as a fixed-price award, which was determined incorrect by Internal Audit. The actual amount owed to the agency is $4,697 and will be returned by October 31, 2003.

- Child Care Apprentice Program: The grantor agency extended the term of the award informally, rather than a formal extension of the Purchase Order. The amount owed will be returned by October 31, 2003.

- Special Education Grants: The grantor agency requested a bill prior to the end date of the award. When the project ended, the funds not expended were refunded to the grantor agency prior to the issuance of this report.

  Implementation date: October 31, 2003.

Recommendation No. 32:

The University of Colorado at Denver should establish adequate controls over sponsored programs by:

a. Conducting a comprehensive review of its sponsored program processes, controls, and competencies.

b. Clearly identifying respective responsibilities, authorities, and procedures that will fully comply with federal and state requirements, and developing guidance that reflects the same.

c. Conducting training to ensure all parties involved in sponsored program financial compliance are adequately equipped to carry out their responsibilities.

University of Colorado Response:

Agree. The University of Colorado at Denver (UCD) will perform the following steps:

a. UCD has leveraged the internal audit function and continued the assessment of its program processes, controls, and competencies. An action plan of enhancements was developed by management and is expected to be fully implemented by June 30, 2004.

   Implementation date: June 30, 2004.

b. A checklist (working set of procedures) will be developed outlining the responsibilities and authorizations required of Pre- vs. Post-Award Offices by October 31, 2003.

   Implementation date: October 31, 2003.

c. UCD will create a two-part training program as follows. First, UCD will modify University of Colorado Health Sciences Center Web-based training and mandate that all grant/contract administrators and funded principal investigators complete this training. The Web-based training will begin as soon as it becomes available, and is anticipated by December 31, 2003. Second, a training program developed by Pre- and Post-Award Offices has been piloted and will be offered to grant/contract administrators and principal investigators. The first round of training for existing administrators and principal investigators will be completed by June 30, 2004.

Implementation date: June 30, 2004.

Board of Governors of the Colorado State University System

The Board of Governors of the Colorado State University System has control and supervision of two distinct institutions: Colorado State University – a land-grant university – and Colorado State University - Pueblo – a regional, comprehensive university.

The Board administers the State Board of Agriculture Fund located in the Office of the State Treasurer (Treasury). The Board is authorized to fix tuition, pay expenses, and hire officials. The chief academic and administrative officers are the chancellor of the Colorado State University System and the president of each institution.

Colorado State University

Colorado State University (CSU) was originally created in 1870 as the Agricultural College of Colorado. In 1876 when Colorado became a state, it was placed under the governance of the State Board of Agriculture, and began admitting students in 1879. It was also designated that year as Colorado's land-grant college and recipient of federal endowment support under the Morrill Act of 1862. Subsequent federal legislation led to the establishment of the Agricultural Experiment Station and the Cooperative Extension Service of the University. State legislation also made the University responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957.

The following comments were prepared by the public accounting firm of KPMG LLP, which performed Fiscal Year 2003 audit work at Colorado State University.

Federal Awards

We performed procedures required by OMB Circular A-133 and the Compliance Supplement for the following programs:

- Federal Emergency Management Agency (FEMA) awards
- Research and Development Cluster
- Student Financial Assistance Cluster
- Cooperative Forestry Assistance

For Fiscal Year 2003, CSU received approximately $2 million, $90 million, $110 million, and $13 million of federal financial assistance for the four programs, respectively. The 10 findings and recommendations presented below result from this work and are reported as required under OMB Circular A-133 and *Government Auditing Standards*.

It should be noted that these findings relate only to the sample size selected for testing, and the items identified below could be more widespread.

FEMA Cash Management

When entities are funded on a reimbursement basis, program costs must be paid by entity funds before reimbursement is requested from the federal government. Also, cash management regulations require that interest earned on advances by government grantees is required to be submitted promptly to the respective federal agency. Up to $250 of interest earned per year may be kept for administrative expenses.

During the year, the Colorado State Forest Service (CSFS) of CSU did not have adequate controls in place to identify and prevent the inappropriate drawing of funds. Because of this, the CSFS inappropriately drew down approximately $12.8 million in funds prior to payment of costs by CSU. Due to the fact that these funds were requested prematurely, the funds earned interest while being held as part of CSU's share of the Treasury pool. CSU does not have adequate procedures in place to ensure proper tracking of interest earned on advanced monies. Therefore, interest earnings on these funds were not submitted promptly, as required. After discovering the error of the premature draw of funds, CSU moved the request-for-funds function to the Office of Sponsored Programs (OSP) from the Colorado State Forest Service due to the fact OSP has more knowledge of cash management requirements.

As a result of prematurely drawing down these funds, CSU earned interest on these funds for a period of four to five months. CSU did not remit the interest on the advance to FEMA until June 2003 after our audit procedures brought to the attention of management that the interest had not yet been remitted. Prior to our recommendation, CSU identified that interest was owed, but no action was taken. In addition, we noted that the CSFS and other departments believed that grant monies were deposited in non-interest-bearing accounts.

In September 2002 the CSFS drew $12.8 million in advance funding from FEMA prior to payment of program costs by CSU. Upon realization that the funds were inappropriately drawn down, the CSFS returned the unspent funds of $8.1 million in January 2003. No questioned costs were associated for this finding, since CSU remitted the required interest earnings of approximately $36,000 prior to June 30, 2003, based on our recommendation.

(CFDA No. 97.046; Federal Emergency Management Agency; Cash Management)

Recommendation No. 33:

Colorado State University should ensure cash management requirements are adhered to by:

a. Ensuring the request-for-funds function is assigned to someone familiar with cash management compliance requirements.

b. Implementing a formal secondary review by a person that did not directly prepare the draw. All reports submitted to a federal agency should be formally reviewed by a person at least one level above the preparer.

c. Considering a cursory review by the Office of Sponsored Programs (OSP), for those programs that are not already drawn or billed by OSP, to ensure cash management compliance.

d. Designating a knowledgeable person or group to monitor interest earned on the advancement of federal funds to ensure that interest earned is remitted to the appropriate federal agency.

Colorado State University Response:

Agree. CSFS awards are now being administered by OSP. With respect to the other departments drawing federal cash (Agricultural Experiment Station, Coop Extension, Student Financial Aid), Business and Financial Service along with Sponsored Programs will review the existing policies regarding cash management, including the delegation of authority to act on behalf of the University in drawing federal and state funds. Based upon this review, Financial Procedure Instructions will be updated to establish criteria under which an individual may be delegated such authority, determine and implement an appropriate level of review, and properly manage and remit interest earned to the respective agency.

Implementation date: September 2004.

FEMA and Cooperative Forestry Assistance Suspension and Debarment

Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 and all nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The nonfederal entities may rely upon the certification unless they know that the certification is erroneous. Nonfederal entities may, but are not required to, check for suspended and debarred parties that are listed on the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* issued by the General Services Administration (GSA).

The Colorado State Forest Service (CSFS) of CSU did not inquire about or obtain the suspension or debarment certification for its cooperators and vendors in relation to the FEMA award, or in relation to the Interagency Cooperative Fire Management Agreement and most of the subrecipients used in the Consolidated Payment Grants for the Cooperative Forestry Assistance award. By not obtaining the appropriate certifications and not reviewing the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, the CSFS may unknowingly make payments to parties that are suspended or debarred.

For the FEMA award, we noted that the CSFS has numerous cooperators and vendors who were used to extinguish the forest fires. All of these cooperators and vendors had contracts and agreements in place. However, none of the agreements contained a suspension and debarment certification. For the Cooperative Forestry Assistance award, we found that four subrecipients of the 30 vendors and subrecipients tested were required to sign a document that they were not suspended or debarred. Program managers were not aware of this requirement for all of the applicable entities during Fiscal Year 2003. Alternatively, management did not determine if vendors or subrecipients were on the excluded parties list for the Cooperative Forestry Assistance award.

As part of our audit procedures, we reviewed the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* to ensure no payments were made to suspended or debarred parties. No such payments were noted; thus, there were no questioned costs related to these findings.

(CFDA Nos. 10.664, 97.046; Cooperative Forestry Assistance, Federal Emergency Management Agency; Procurement, Suspension, and Debarment.)

Recommendation No. 34:

Colorado State University should include a standard clause in all cooperator and vendor agreements or obtain a separate certification from the vendors and cooperators stating that the cooperator/vendor is not suspended or debarred from federal procurement and nonprocurement programs.

Colorado State University Response:

Agree. In conjunction with the transfer of the administrative functions associated with the Colorado State Forest Service awards to Sponsored Programs, these procedures will be automatically implemented. Obtaining certification for suspension or debarment is a component of our standard subcontracting process.

Implementation date: June 2004.

Research and Development and Cooperative Forestry Assistance Subrecipient Monitoring

Federal regulations contain a number of requirements for monies that are passed through by Colorado State University to other entities. Federal regulations require that CSU:

- Ensure required audits are performed for subrecipients, as applicable, to ensure subrecipients are adhering to federal compliance requirements related to the funds.

- Ensure prompt action is taken on any audit findings.

- Adequately monitor subrecipients using progress reports, site visits, and other communication.

- Communicate the Catalog of Federal Domestic Assistance (CFDA) number of the prime agreement, the title of the program, and the awarding federal agency to the subrecipient.

- Include language in its contracts with subrecipients relating to the OMB Circular A-133 requirements.

Research and Development Cluster

In our review of a sample 24 subrecipient files for research and development grants, we noted that four OMB Circular A-133 reports for subrecipients had findings. Of those four subrecipients, one reported significant noncompliance findings related to the Research and Development Cluster. For this subrecipient, there was no evidence that CSU required a corrective action plan be developed by the subrecipient nor was there any evidence of adequate follow-up procedures. Additionally, of the sample of 24, four subrecipients were not subject to OMB Circular A-133 requirements because they were either a for-profit entity or a federal entity. Of those four, one obtained a single audit report, which was reviewed by CSU. We did not note any additional procedures performed on the other three to ensure that the costs submitted were allowable and the controls in place at the entity are appropriate.

For the subrecipients receiving research and development funds who reported findings in connection with their OMB Circular A-133 audit, CSU did not ensure that prompt corrective action was taken to resolve the findings noted in their report. Also, even though the University does evaluate and establish additional procedures for some subrecipients not subject to OMB Circular A-133 requirements, the University does not have a formal established policy relating to the monitoring activities for entities not subject to OMB Circular A-133. This creates inconsistent treatment of these entities.

Cooperative Forestry Assistance Award

In our review of a sample of 30 subrecipients receiving funding under the Consolidated Payment Grants for the Cooperative Forestry Assistance award, none of the OMB Circular A-133 reports for the entities had been obtained or reviewed. Further, in five of the subrecipients tested, the Colorado State Forest Service (CSFS) did not inform subrecipients of the required information, including CFDA number, program title, the name of the federal awarding agency, or the need for the subrecipient to follow the requirements of OMB Circular A-133.

For the pass-through entities receiving Cooperative Forestry Assistance funds, the subrecipients may not be aware of all necessary requirements and regulations associated with federal programs and may be administering the program in a manner inconsistent with applicable federal rules and regulations. Also, because subrecipient OMB Circular A-133 reports (if required) are not obtained and reviewed, the Colorado State Forest Service cannot ensure prompt action is taken on areas of noncompliance and that corrective action is in place.

(See Appendix A, Colorado State University, for listing of applicable CFDA Nos.; Cooperative Forestry Assistance, Research and Development Cluster; Subrecipient Monitoring.)

Recommendation No. 35:

Colorado State University should comply with subrecipient monitoring compliance requirements for research and development grants by:

a. Developing a formal policy requiring subrecipients to take timely and appropriate corrective action on all audit findings.

b. Requiring proper follow-up procedures to be performed to ensure the corrective action plan was properly adhered to by the subrecipient reporting significant noncompliance findings.

c. Incorporating procedures into the policy regarding the monitoring of subrecipients not subject to OMB Circular A-133 audits.

Colorado State University Response:

a. Agree. Complete procedures, to include for-profit high-risk entities, those entities falling under the OMB Circular A-133 threshold, and/or entities reporting noncompliance issues, will be reviewed and formalized into the Subcontracting Manual.

   Implementation date: June 2004.

b. and c.: Agree. At the time CSU enters into a subaward, CSU requests the subrecipient to provide an Audit Certification Letter, and any other documents as considered necessary, indicating their compliance status with OMB Circular A-133. Sponsored Programs reviews the information provided by the subrecipient and forwards noncompliant responses to the Associate Controller within Business and Financial Services. The Associate Controller reviews the pertinent information and formulates a specific follow-up plan based upon the nature of the noncompliance issue. As noted within the discussion above, one subrecipient had reported significant noncompliance findings and no follow-up procedures had been performed. Since the time this issue was raised, follow-up procedures have been formulated and are in the process of being implemented.

The current procedures as set forth in the Subcontracting Manual for monitoring all subrecipients do provide for oversight. All invoices submitted for payment are reviewed by Sponsored Programs to ensure that the charges are within the approved budget, that the time period for the billing is appropriate, and that sufficient funds are available to cover the invoice.

Once Sponsored Programs has completed their review, the invoice is sent to the principal investigator for authorization of payment and certification of progress. This process is necessary as the principal investigator is in regular contact regarding program objectives and status of work completion.

Implementation date: June 2004.

Recommendation No. 36:

Colorado State University should strengthen controls over subrecipient monitoring for the Cooperative Forestry Assistance award program by:

a. Obtaining A-133 reports for all subrecipients and establishing follow-up procedures to ensure the proposed corrective action plan is adhered to by the subrecipients.

b. Including in subrecipient agreements all necessary compliance elements, including the title of the award and the federal awarding agency, the CFDA number, and the need for the subrecipient to follow OMB Circular A-133 requirements. This can be done through the use of a checklist to ensure all required elements are included in agreements.

Colorado State University Response:

Agree. In conjunction with the transfer of administrative functions associated with the Colorado State Forest Service awards to Sponsored Programs, these procedures will be automatically implemented. Sponsored Programs currently has a Subcontracting Manual in place that provides for acquiring, reviewing and following up on reports submitted by subrecipients. Sponsored Programs also has standard contract templates in place, by sponsoring agency, that specifically identifies requirements, such as those under OMB Circular A-133, and necessary information, such as CFDA number, that must be passed down to subrecipients. These contracts, if necessary, are modified to address the specifics of each individual award.

Implementation date: June 2004

Student Financial Assistance Withdrawal Dates

A college or university is required to determine the withdrawal date for a student (who withdraws without providing notification) by 30 days after the end of the payment period (i.e., semester) or academic year from which the student withdrew, whichever is earlier (*34 CFR 668.22)*.

Adequate procedures are not in place at CSU to ensure that the withdrawal dates of students who withdraw without providing notification are determined within 30 days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. CSU's procedures for determining the withdrawal dates for these students allow extended time to receive last dates of attendance (LDAs) from faculty to use in the return of Title IV funds calculations. This resulted in questioned costs of $910.

In a sample of 30 students, CSU determined the withdrawal date late for 2 students. One student's withdrawal date was determined 34 days after the end of the semester (four days late). CSU appropriately used the midpoint of the semester to determine the return of Title IV funds amount for this student, since the student did not have an LDA, and returned appropriate funds. The other student's withdrawal date was determined 42 days after the end of the semester (12 days late), which was concurrently used as the student's LDA, since that is the date CSU was notified. The actual LDA that should have been used was 12 days earlier. Thus, CSU used the LDA received 42 days after the end of the semester to determine the return of Title IV funds amount. This LDA was beyond the 60 percent point of the semester, which requires no return to be made. As such, CSU did not return funds for this student. However, had the midpoint of the semester been used by 30 days after the end of the semester, which is the date that should have been used as the LDA, to determine the return of the Title IV funds amount, CSU would have had to return $910 to the Federal Direct Loan program. This would have been appropriate, since the LDA was not known by 30 days after the end of the semester. The student would not have had to make a return, but would have to repay his student loans in accordance with the original promissory notes.

Some withdrawal dates for students who withdraw from CSU without providing notification are not being determined timely. This has caused CSU to not return funds that it should have returned. This may also cause CSU to return funds beyond the time frame established by regulations if such returns are due.

(See Appendix A, Colorado State University, for listing of applicable CFDA Nos.; Student Financial Assistance Cluster; Special Tests and Provisions.)

Recommendation No. 37:

Colorado State University (CSU) should establish procedures to ensure that the withdrawal dates of students who withdraw from CSU without providing notification are determined by 30 days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. Also, these procedures should ensure proper return of Title IV funds.

Colorado State University Response:

Agree. We will not permit individual students to have extra time to provide proof of their last day of attendance. If the professor whose signature is required to validate the last day of attendance is unavailable during semester breaks, we will assume the last day of attendance to be the midpoint of the term.

Implementation date: May 2004.

Student Financial Assistance Cost of Attendance Updates

The cost of attendance (COA) is an estimate of a student's education expenses for the period of enrollment. Each student is assigned a COA according to CSU's established student budgets. The COA is one component necessary to determine a student's financial need. A student must have financial need to receive all Federal Student Aid except for unsubsidized Stafford and PLUS loans; however, the total aid package cannot exceed the COA *(HEA Sec. 472; 2002 – 2003 United States Department of Education Federal Student Aid Handbook; Volume 1, Student Eligibility; Chapter 7, Financial Need and Packaging).*

Adequate procedures are not in place at CSU to ensure that the appropriate COA is assigned to students according to CSU's established student budgets for students whose COAs have been manually adjusted prior to receiving updated data as a result of submitting corrections and updates through the Electronic Data Exchange (EDE) to the Central Processing System (CPS).

In a sample of 30 students, there was one student for whom an incorrect COA was assigned due to this condition. This student had originally been assigned a nine-month COA for a married student with two members of the household in college. The student attended only the spring semester; therefore, his COA was manually adjusted by halving the originally assigned COA, as appropriate. However, verification was then performed and it was discovered that there was only one person in the household in college. As such, corrections were submitted through EDE to the CPS to update the number in college, as required. When corrections are received, they automatically update the system including the COA. However, the COA is not automatically updated if it has already been manually adjusted, as in this case. Therefore, this student's COA remained at the level with two in the household in college, when it should have been updated to one in the household in college. If the COA had been appropriately updated to CSU's married student budget with one in college, this student would have been eligible for an additional $428 in Federal District unsubsidized loan funds.

Data corrections received from the CPS do not update COAs that have previously been manually changed. This has caused CSU to assign an incorrect COA to a student, which caused him to not receive an award for which he was eligible.

(See Appendix A, Colorado State University, for listing of applicable CFDA Nos.; Student Financial Assistance Cluster; Special Tests and Provisions.)

Recommendation No. 38:

Colorado State University should establish procedures to ensure that cost of attendances that have been manually changed prior to receiving data corrections from the Central Processing System are examined to ensure appropriateness.

Colorado State University Response:

Agree. The population for whom this is an issue is extremely small. The living costs are the same for all students, except those who are married and both the student and the spouse are in school. We now have an edit in place to identify these students.

Implementation date: Implemented.

Student Financial Assistance Exit Counseling

A college or university must ensure that exit counseling is conducted with each Federal Direct Loan borrower shortly before the student borrower ceases at least half-time study at the school. If the student fails to complete the exit counseling as required, the school must provide exit counseling either through interactive electronic means or by mailing written counseling materials to the student borrower within 30 days after the college or university learns that the student borrower has withdrawn from school. The college or university must maintain documentation for each student borrower, substantiating the school's compliance with the exit counseling requirements (34 CFR 685.304 (b)).

Adequate procedures are not in place at CSU to ensure that the documentation is maintained to substantiate the school's compliance with exit counseling requirements.

In a sample of 30 students, there were 5 that required exit counseling. CSU could not provide documentation that it had complied with the exit counseling requirements for these five students. CSU maintains that it did send the students exit counseling materials; however, it failed to maintain documentation to substantiate this.

By not maintaining documentation that it complied with exit counseling requirements, CSU could not substantiate its compliance with federal regulations.

(See Appendix A, Colorado State University, for listing of applicable CFDA Nos.; Student Financial Assistance Cluster; Special Tests and Provisions.)

Recommendation No. 39:

Colorado State University should implement procedures to ensure that documentation is maintained to substantiate its compliance with exit counseling requirements.

Colorado State University Response:

Agree. The exit counseling was conducted. Normally the documentation is retained. However, this year it was inadvertently misplaced. We will review all our procedures, and make any necessary adjustments, to help ensure these errors to not repeat.

Implementation date: May 2004.

Student Financial Assistance Reporting

To apply for and receive funds for the campus-based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant), colleges and universities must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2003, reported on the colleges' and universities' campus-based program participation for 2002 – 2003 and applied for campus-based program funding for 2004 – 2005. The FISAP must contain accurate data, and the school must retain accurate and verifiable records for program review and audit purposes *(Department of Education FISAP Instructions)*. Adequate procedures are not in place at CSU to ensure that the accurate data are reported in the FISAP.

CSU reported $10,308 in other income for the Perkins loan fund on the Institutional Capital Contribution (ICC) line of the FISAP (Line 21, Part III, Section A). This other income consisted of collection costs collected from repayment of overdue loans. These collection costs do not constitute an ICC, which is defined as being at least one-third of the annual Federal Capital Contribution (FCC) and is the school's matching share to the FCC.

Reporting other income on the Institutional Capital Contribution line does not report accurate data in the FISAP.

(See Appendix A, Colorado State University, for listing of applicable CFDA Nos.; Student Financial Assistance Cluster; Reporting.)

Recommendation No. 40:

Colorado State University should implement procedures to ensure that all elements of the FISAP are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.

Colorado State University Response:

Agree. The numbers submitted on the FISAP are reviewed for accuracy according to the documentation on file with each responsible area. The documentation will be reviewed for accuracy each aid year, and each responsible accountant will provide a review signature.

Implementation date: September 2004.

Cooperative Forestry Assistance Cash Management/Allowable Costs/Matching

Total costs submitted for reimbursement to the federal awarding agency for Consolidated Payment Grants must be within the guidelines of the grant agreement and include documentation that supports CSU's required matching contribution of 50 percent of the total costs incurred for the program. CSU should have controls in place to ensure that adequate documentation exists to support the request for reimbursement of appropriate costs, and that CSU and its subrecipients combined have met the 50 percent matching requirement.

We tested 30 payments to vendors/subrecipients and noted the following:

- In one instance, a payment was made without the request for reimbursement being properly authorized.

- One accomplishment report was submitted that had not been approved by the field office. The report was subsequently approved for payment by the Colorado State Forest Service (CSFS).

- Four payments to subrecipients totaling $110,500 included advances to the subrecipients in the amount of $57,777. The advances were based on estimated costs expected for the project (work in progress) rather than actual costs incurred when the reimbursement request was submitted. We reviewed the final reimbursements for all costs of the applicable projects and determined that none of the payments caused the project within the grant to be overspent.

- Three payments were made to subrecipients that exceeded the originally approved funding levels for the subrecipients by a total of $2,779. The payments were made without documented support for the approved increase. Ultimately, adequate budget at the federal level was available and the costs were considered allowable.

- Two payments were made to subrecipients that exceeded the originally approved reimbursement level of 50 percent by a total of $6,595. We determined that these payments did not result in noncompliance for matching for the grant as a whole.

- One payment was made in which support for expenses appeared inadequate. We also found that field offices, in some cases, are providing support to the state office that exceeds what is required in the policy. In one instance, the excess documentation supported only a portion of the total expenses. This inconsistency could cause the detail to appear inadequate.

- One payment was made in which a vendor was overpaid $1,190 because of disallowed costs subsequently disallowed by the federal agency. The Colorado State Forest Service (CSFS) should request the vendor to reimburse it for the overpayment.

- In one instance, CSFS did not request reimbursement for $21,304 of seemingly valid expenses that were incurred and supported by invoices. The

CSFS should request reimbursement from the federal awarding agency for these expenses.

In addition, we tested 12 requests for reimbursement from the federal awarding agency and noted one draw in which the amount reimbursed was $1,190 less than the amount that the CSFS paid to the vendor because the federal awarding agency disallowed some of the costs, one instance in which the amount drawn did not include all costs shown of the supporting documentation, nine draws which were not reviewed for propriety or accuracy, and three draws that were reviewed at a level of approval that could not detect inaccurate reporting. The federal awarding agency adjusted the draw amount for discrepancies or errors.

Because of control weaknesses in some areas, the CSFS may be paying subrecipients in excess of their approved contract without documenting that the variance was approved. This also could result in the CSFS reimbursing subrecipients for unallowable costs and in CSU being out of compliance with the matching requirement. In addition, the CSFS is at risk of submitting inaccurate reimbursement requests for costs not yet expended, which could result in costs being disallowed by the federal awarding agency.

(CFDA No. 10.664; Cooperative Forestry Assistance; Cash Management; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking.)

Recommendation No. 41:

Colorado State University should strengthen controls over cash management and expenditures for the Cooperative Forestry Assistance grant by:

a. Performing a detailed review, on a test basis, of expenses submitted to monitor payments made to subrecipients, as approved by field offices, to ensure that allowable expenses are submitted for reimbursement, consistent documentation is provided, and procedures for reviewing allowability at the field office level are performed accurately.

b. Approving payments to subrecipients only for actual costs incurred rather than estimated costs to be incurred.

c. Comparing the maximum allowable contract amount to total amounts expended and documenting any variances or amended funding levels on a project basis when the payments are approved.

d. Maintaining a roll-forward of the total amounts eligible and amounts available to ensure the subrecipient has met the required matching contribution.

e. Having requests for reimbursement reviewed by an individual at least one level higher than the person preparing the request prior to submission to the granting agency. The review should be performed both for accuracy and sufficiency of supporting documentation.

Colorado State University Response:

Agree. These control procedures will be implemented with oversight provided by the newly appointed Accountant II position at the Colorado State Forest Service. The Accountant II starts March 29, 2004.

Implementation date: June 2004

Cooperative Forestry Assistance Accounting for Federal Awards

CSU received about $13 million during Fiscal Year 2003 for the Cooperative Forestry Assistance federal grant. The accounting for the forest service awards is performed at the field offices and the central Colorado State Forest Service (CSFS) offices on the CSU campus. Billing and financial report submissions to federal agencies are conducted by the CSFS offices. Year-end closing entries are the responsibility of the Business and Financial Services Department (BFS).

CSU submits an Exhibit K Schedule to the State Controller's Office summarizing the total federal awards the University expended for the fiscal year. The State Controller's Office uses this Exhibit along with comparable exhibits from other state agencies to compile the statewide Schedule of Expenditures of Federal Awards (SEFA). The CSFS recorded indirect costs and direct costs inconsistently in the general ledger during Fiscal 2003. As a consequence, the amounts reported as expenditures on the Exhibit K and the amounts reported as expenditures for reimbursement to the federal awarding agency do not match within a given fiscal year. We noted two errors totaling $3,375,820 which resulted in the overreporting of federal expenditures on the Exhibit K and correspondingly in the statewide SEFA. The errors on the Exhibit K and the SEFA were subsequently corrected.

(CFDA No. 10.664; Cooperative Forestry Assistance; Other.)

Recommendation No. 42:

Colorado State University should reconcile the following, on a grant by grant basis, within the fiscal year as well as over the life of the grants: the amounts drawn from the federal agency, the amounts reported as federal expenditures and revenue in the general ledger, and the amounts reported on the Exhibit K.

Colorado State University Response:

Agree. In conjunction with the transfer of the administrative functions associated with the Colorado State Forest Service awards to Sponsored Programs, these procedures will be automatically implemented. All financial reports and billings submitted to a federal agency are based upon amount provided within the general ledger.

Implementation date: June 2004

Cooperative Forestry Assistance Reporting

Based on the terms specified in the grant agreement for the Consolidated Payment Grants, CSU is required to submit an annual SF-269A report, *Financial Status Report*, to the federal awarding agency. This report summarizes amounts received during the year. During Fiscal Year 2003, the Colorado State Forest Service (CSFS) did not submit the annual SF-269A report as required. The CSFS did not obtain adequate information regarding reporting requirements for the grant or ensure compliance with the reporting requirements.

(CFDA No. 10.664; Cooperative Forestry Assistance; Reporting.)

Recommendation No. 43:

Colorado State University should establish procedures to review all grant agreements upon initiation and implement the necessary processes to ensure compliance with reporting and other applicable requirements. An individual should be assigned responsibility for completing required reports timely, and a secondary review of the report should be performed by another individual knowledgeable of the program prior to submission.

Colorado State University Response:

Agree. In conjunction with the transfer of the administrative functions associated with the Colorado State Forest Service awards to Sponsored Programs, these procedures will be automatically implemented. Sponsored Programs has a separate system established for the purpose of managing all aspects of the University's federal awards. Within the system, reporting requirements are identified in such a manner that provides for timely and accurate financial reporting, regardless of the format required. Sponsored Programs also provides for a secondary review of all financial reports submitted to federal agencies.

Implementation date: June 2004

Trustees of the State Colleges - Adams State College

Through June 30, 2003, the Board of Trustees of the State Colleges in Colorado was the governing board for Adams State College, Mesa State College, Western State College, and Western State College Graduate Center. House Bill 03-1093 authorized independent governance for Adams State College effective July 1, 2003, and a new Board of Trustees was appointed to govern the College. Adams State College is a liberal arts college with graduate programs in Teacher Education, Counseling, and Art.

The following comment was prepared by the public accounting firm of Wall, Smith, Bateman & Associates, Inc., which performed Fiscal Year 2003 audit work at Adams State College.

Student Financial Aid

During Fiscal Year 2003 the College received $1.9 million in state funds and $3.1 million in federal funds for student financial aid. The College's Financial Aid Department processes and awards the funds to students and is responsible for preparing and filing various reports to state and federal agencies.

The College files a year-end report on student financial aid with the federal government. The Fiscal Operations Report and Application to Participate (FISAP) report was filed on the due date of October 1. However, the College told us the report contained errors and needed to be corrected. A corrected FISAP report was filed in December 2003. Since the College filed corrected the FISAP report after completion of our audit work, we did not review the corrected report and plan to review them during our Fiscal Year 2004 audit of the College.

(CFDA Nos. 84.007, 84.033, 84.038, 84.063; Student Financial Aid Cluster; Reporting.)

Recommendation No. 44:

Adams State College should improve its procedures and controls over student financial aid reporting and eligibility by ensuring that the FISAP report is prepared and filed on a timely basis and contains accurate data that agrees with accounting and financial aid records.

Adams State College Response:

Agree. Adams State College will evaluate its procedures to ensure the timely and accurate reporting of the U.S. Department of Education FISAP report.

Implementation date: June 2004.

State Board for Colorado Community Colleges and Occupational Education

The State Board for Community Colleges and Occupational Education (SBCCOE or the Board) was established by the Community College and Occupational Education Act of 1967, or Article 23-60, C.R.S. The Board functions as a separate entity and, as such, may hold money, land, or other property for any educational institution under its jurisdiction. The statute assigns responsibility and authority to the Board for three major functions:

- The Board is the governing board of the state system of community and technical colleges.
- The Board administers the occupational education programs of the State at both secondary and post-secondary levels.
- The Board administers the State's program of appropriations to local district colleges and area vocational schools.

The Board consists of nine members appointed by the Governor to four-year staggered terms of service. The statute requires that Board members be selected to represent certain economic, political, and geographical constituencies.

The 13 colleges in the community college system are as follows:

College	Main Campus Location
Arapahoe Community College	Littleton
Community College of Aurora	Aurora
Community College of Denver	Denver
Colorado Northwestern Community College	Rangely
Front Range Community College	Westminster
Lamar Community College	Lamar
Morgan Community College	Fort Morgan
Northeastern Junior College	Sterling
Otero Junior College	La Junta
Pikes Peak Community College	Colorado Springs
Pueblo Community College	Pueblo
Red Rocks Community College	Lakewood
Trinidad State Junior College	Trinidad

The following comments were prepared by the public accounting firm of KPMG LLP, which performed the Fiscal Year 2003 audit work at the Colorado Community College System.

Student Financial Assistance

We performed procedures on Student Financial Assistance (SFA) required by the Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement for Student Financial Aid. We also performed procedures as required by the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2003 revision. The 12 findings and recommendations below result from this work.

Carryforward Balances

A school may carry forward up to 10 percent of the previous year's Federal Supplemental Educational Opportunity Grant (FSEOG) allocation to cover expenditures in the current award year. However, before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year. Additionally, a school must disburse funds to qualifying students no later than three business days, plus an additional seven calendar days in certain circumstances, after the school receives them. *(June 2001 United States Department of Education Blue Book; Chapter 3, Obtaining Authorization for Campus Based Funding; 34 CFR 668.166.)*

Adequate procedures are not in place at Arapahoe Community College (ACC) to ensure that carryforwards are spent before spending the current year allocation. In a sample of 30 cash draws (four from ACC), two ACC FSEOG draws were made from the current year allocation instead of from the carryforward from the prior year. This finding resulted in questioned costs of $4,542. ACC maintained a cash balance from the carryforward without disbursing it to students, while it drew and disbursed cash from the current year allocation. Disbursements were occurring normally, but with the current year allocation instead of first using the carryforward.

(CFDA No. 84.007; Federal Supplemental Educational Opportunity Grant; Cash Management.)

Recommendation No. 45:

Colorado Community College System should ensure Arapahoe Community College establishes procedures to ensure that carryforward balances are disbursed prior to disbursing current year allocations, and ensure that it has reimbursed the U.S. Department of Education for the difference between the earnings that the excess cash balance would have yielded if invested under the applicable current value of funds rate and the actual interest earned on that balance.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Arapahoe Community College has implemented carryforward procedures to ensure carryforward funds are spent before spending current year allocations. In addition, Arapahoe Community

College will contact the U.S. Department of Education to determine if a potential interest payment is required.

Implementation date: June 2004.

Verification of Data

A student must have financial need to receive all Federal Student Aid (FSA) funds except for Unsubsidized Stafford and PLUS loans under the Direct Loan and Federal Family Education Loan Programs. Financial need is simply defined as the difference between the student's Cost of Attendance (COA) and the family's ability to pay these costs, the Expected Family Contribution (EFC). The COA is an estimate of a student's education expenses for the period of enrollment. Because students sometimes make significant errors on their application, the law includes a verification process as part of the FSA program requirements. The U.S. Department of Education only requires that a portion of the Fee Application for Federal Student Aid filers at a school be verified, generally those selected by the Central Processing System (CPS). If the CPS selects an application for verification, the following five major data elements must be verified: household size, number in college, Adjusted Gross Income (AGI), U.S. taxes paid, and certain types of untaxed income benefits, including Social Security benefits, child support, IRA/Keogh deductions, foreign income exclusion, Earned Income Credit, and interest on tax-free bonds. All of these may impact the COA and/or EFC. *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 1, Student Eligibility; Chapter 7, Financial Need and Packaging and Application and Verification Guide; Chapter 3, Verification.)*

Adequate procedures are not in place at the Community College of Denver (CCD) to ensure that required data elements are verified and that the resulting verified information is used to properly calculate the COA and/or EFC. In a sample of 30 students (7 from CCD), 4 students' data were improperly verified and 1 student's verified data were not used in assigning the proper budget. The following items were not accounted for on the Student Information System and, therefore, not taken into account in calculating the student's need: the child support reported on Worksheet B, the child tax credit reported on Worksheet A and the tax return, and the education credit reported on the tax return. Another student did not submit the appropriate documents such that the college could verify his AGI and taxes paid. Appropriate documents include an Internal Revenue Service tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement from the student. Finally, another student had a verified household size of three: the student, her sibling, and their mother. Based on this information, the student's COA should have been the "At Home" budget established by the college. Instead, an "Away" budget was used, with no documentation in the student's file of a professional judgment having been done to adjust the COA. Improper verification may result in students' receiving aid for which they are ineligible.

(CFDA Nos. 84.007, 84.033, 84.063, 84.268; Title IV; Special Tests and Provisions.)

Recommendation No. 46:

Colorado Community College System should ensure Community College of Denver establishes procedures to ensure that all required data elements are verified and that all required verification worksheet sections are completed and appropriately signed, with all required documents received. Additionally, CCD should establish procedures to ensure that assigned budgets correspond with verified data.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Community College of Denver staff have been trained and have established continuous training on verification. An audit process has been implemented to ensure accuracy.

Implementation date: June 2004.

Enrollment Date Reporting

As part of the Pell reporting process to the Common Origination and Disbursement System (COD), schools must report the enrollment date for Pell-eligible students. This is the first date the student was enrolled in the eligible program for the award year. For this item, "enrolled" means the first day the student attended classes (i.e., the first day of the term). *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 3, Federal Pell Grant Program; Chapter 3, Pell Reporting; 2002-2003 COD Technical Reference, Appendix E, Version 3.4.)*

Adequate procedures are not in place at Front Range Community College (FRCC) and Community College of Denver (CCD) to ensure that the enrollment date reported to COD is correct. In a sample of 30 students (9 from FRCC, 7 from CCD), 14 students' enrollment dates were reported incorrectly. CCD improperly reported the enrollment date as 8/23/02 instead of 8/19/02 for five students. FRCC improperly reported the enrollment date as 8/1/02 instead of 8/26/02 for nine students. Incorrectly reported enrollment dates may cause the COD to misidentify or not identify potential concurrent enrollments for students, which could cause students to be awarded and paid Pell grants that they are not eligible for. No overpayments were noted. However, if the student was concurrently enrolled at another institution and this concurrent enrollment was not detected because the enrollment date was misreported, there could be overpayments.

(CFDA No. 84.063; Federal Pell Grant Program; Reporting.)

Recommendation No. 47:

Colorado Community College System should ensure Front Range Community College and Community College of Denver establish procedures to ensure that enrollment dates are reported correctly in the Pell reporting process.

Colorado Community College System Response:

Agree. The System will work with the colleges to ensure compliance with financial aid rules and regulations. At Front Range Community College, date parameters have been added to the programs that populate this field. Each term these parameters will be updated to reflect the correct start date. Community College of Denver will review all start dates reported and ensure the date is accurate in all future reports.

Implementation date: June 2004.

Pell Grant Disbursements Reporting

As part of the Pell reporting process to the Common Origination and Disbursement System (COD), schools must report disbursements within 30 days of making the payment, at the latest. *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 3, Federal Pell Grant Program; Chapter 3, Pell Reporting.)*

Adequate procedures are not in place at Trinidad State Junior College (TSJC) to ensure that the disbursements are reported to the COD within 30 days of making payment. In a sample of 30 students (4 from TSJC), 3 students' Pell disbursements were not reported to the COD within 30 days of the college's disbursing the funds to the students. The college reported the Pell disbursements nine days late for two students and eight days late for the other student. Reporting Pell disbursements untimely is noncompliant with federal regulations.

(CFDA No. 84.063, Federal Pell Grant Program, Reporting.)

Recommendation No. 48:

Colorado Community College System should ensure Trinidad State Junior College establishes procedures to ensure that Pell disbursements are reported within 30 days after making payment to students.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Trinidad State Junior College will implement a procedure to make sure Pell disbursements are reported within 30 days ensuring that Trinidad State Junior College is compliant with federal regulations.

Implementation date: June 2004.

Verification Status Codes Reporting

Because students sometimes make significant errors on their application, the law includes a verification process as part of the Federal Student Aid program requirements. The U.S. Department of Education only requires that a portion of the Free Application for Federal Student Aid filers at a school be verified. The following five major data elements must be verified: household size, number in college, AGI, U.S. taxes paid, and certain types of untaxed income benefits, including Social Security benefits, child support, IRA/Keogh deductions, foreign income exclusion, Earned Income Credit, and interest on tax-free bonds. As part of the Pell reporting process to the Common Origination and Disbursement System (COD), schools must report the Verification Status Code for Pell-eligible students. There are three valid

Verification Status Codes, which are as follows: V = "Verified;" W = "Student has not completed the verification process;" blank = "Student has not been selected for verification." *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 3, Federal Pell Grant Program; Chapter 3, Pell Reporting.)*

Adequate procedures are not in place at Front Range Community College (FRCC) and Community College of Denver (CCD) to ensure that the Verification Status Code reported to COD is correct. In a sample of 30 students (9 from FRCC, 7 from CCD), 6 students' Verification Status Codes were reported as blanks (5 at FRCC and 1 at CCD), when in fact all 6 students had been selected for verification. The students had been verified; therefore, their Verification Status Codes should have been V. Incorrectly reporting Verification Status Codes is noncompliant with federal regulations.

(CFDA No. 84.063, Federal Pell Grant Program, Reporting.)

Recommendation No. 49:

Colorado Community College System should ensure Front Range Community College and Community College of Denver establish procedures to ensure that Verification Status Codes are reported correctly in the Pell reporting process.

Colorado Community College System Response:

Agree. The System will work with the colleges to ensure compliance with financial aid rules and regulations. At Front Range Community College, an edit report has been created for review prior to final reporting to the Common Origination and Disbursement System. Community College of Denver will develop a weekly edit process to ensure all verification codes are correct.

Implementation date: June 2004.

Return of Title IV Funds Calculations

If a recipient of Federal Student Aid funds withdraws from a school after beginning attendance, the amount of aid earned by the student must be determined by calculating a return of Title IV funds. A part of the calculation is to determine the Title IV funds that were disbursed or that could have been disbursed to a student.

Adequate procedures are not in place at the Community College of Denver (CCD) to ensure that the proper Title IV funds are included in the return of Title IV funds calculations. In a sample of 30 students (7 from CCD), CCD included an incorrect award in a student's Return of Title IV calculation. The college included a $450 Federal Supplemental Educational Opportunity Grant (FSEOG) award in the calculation, yet the student did not receive an FSEOG award. Questioned costs of $110 were identified as a result of this finding. Including the incorrect award caused the college to request the student to repay $110 too much to the Pell program. CCD recalculated the amount due from the student and notified the U.S. Department of Education.

(CFDA Nos. 84.007, 84.063, 84.268; Title IV; Special Tests and Provisions.)

Recommendation No. 50:

Colorado Community College System should ensure Community College of Denver establishes procedures to ensure that the proper Title IV funds are included in the return of Title IV funds calculations.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. A standard review process has been initiated to ensure accuracy of return calculations at Community College of Denver.

Implementation date: June 2004.

Return of Unearned Title IV Funds

A school is required to return unearned Title IV funds no later than 30 days after the date the school determined the student withdrew. *(34 CFR 668.22.)*

Adequate procedures are not in place at the Community College of Denver (CCD), Front Range Community College (FRCC), Trinidad State Junior College (TSJC), and

Pueblo Community College (PCC) to ensure that returns are made within 30 days after the date the school determined the student withdrew. In a sample of 30 students (7 from CCD, 9 from FRCC, 4 from TSJC, and 6 from PCC), there were 6 students for whom returns of Title IV funds were made after the 30 days allowed (1 at CCD, 2 at TSJC, 2 at FRCC, and 1 at PCC). At TSJC, one return was made in two parts; one part was eight days late; and the other part was 206 days late. Other returns were made eight days late at CCD and PCC, and TSJC respectively. FRCC made returns 3 and 61 days late. The colleges have returned their portion of unearned Title IV funds beyond the time frame established by the regulations.

(CFDA Nos. 84.007, 84.063, 84.268, 84.032; Title IV; Special Tests and Provisions.)

Recommendation No. 51:

Colorado Community College System should ensure Community College of Denver, Front Range Community College, Trinidad State Junior College, and Pueblo Community College establish procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after the school has determined a student has withdrawn.

Colorado Community College System Response:

Agree. The System will work with the colleges to ensure compliance with financial aid rules and regulations.

Community College of Denver currently reviews weekly reports to ensure all funds are returned timely.

Front Range Community College did calculate the return to Title IV funds within the specified period of time; however, there was an error in the original calculation, therefore increasing the amount that Front Range Community College had to return and putting this outside of the 30-day time frame.

Trinidad State Junior College will implement a procedure to ensure Title IV funds are returned within 30 days, ensuring that TSJC is compliant with federal regulations.

Pueblo Community College will implement new procedures to ensure the institution's portion of a student's unearned Title IV funds are returned within

30 days. Implementation of new procedures will begin with the fall 2003 semester.

Implementation date: June 2004.

Withdrawal Date Determination

A school is required to determine the withdrawal date for a student who withdraws without providing notification by 30 days after the end of the term from which the student withdrew. Further, the school must return its portion of unearned Title IV funds by no later than 30 days after the date the school determined the student withdrew. *(34 CFR 668.22.)*

Adequate procedures are not in place at Trinidad State Junior College (TSJC), Pueblo Community College (PCC), and Community College of Denver (CCD) to ensure that the withdrawal date of students who withdraw without providing notification is determined within 30 days after the end of the term. In a sample of 30 students (4 from TSJC, 6 from PCC and 7 from CCD), there were 2 students who unofficially withdrew in the fall 2002 semester (1 from PCC and 1 from CCD), but the colleges did not determine their withdrawal date until more than 30 days after the end of the term. TSJC did not determine the withdrawal dates for all students who unofficially withdrew from the fall 2002 term until June - July 2003. TSJC indicated that there were three fall 2002 unofficial withdrawals. Withdrawal dates for students who unofficially withdraw from TSJC, PCC, and CCD are not being determined timely. This, in turn, will cause the colleges to return their portion of unearned Title IV funds beyond the time frame established by regulations if such returns are due. No such return was due for the PCC student, while a return was due for the CCD student. CCD indicated that the return was made in July 2003. We did not determine if any returns were due for the fall 2002 unofficial withdrawals at TSJC because there were none of these students in the sample.

(CFDA Nos. 84.007, 84.032, 84.063, 84.268; Title IV; Special Tests and Provisions.)

Recommendation No. 52:

Colorado Community College System should ensure Trinidad State Junior College, Pueblo Community College, and Community College of Denver establish procedures to ensure that the withdrawal dates of students who withdraw without providing notification are determined by 30 days after the end of the term, at the latest.

Colorado Community College System Response:

Agree. The System will work with the colleges to ensure compliance with financial aid rules and regulations.

Trinidad State Junior College will implement a procedure to ensure withdrawal dates for students who withdraw without notification are determined by 30 days after the end of the term.

Although Pueblo Community College agrees that the college did not determine the student's withdrawal date until more than 30 days after the end of the term, the college does not agree that it does not have procedures for determining withdrawal dates of students who withdraw without providing notification. The college was in the process of determining the student's withdrawal date in a timely manner. The student received a grade of F for a class and the instructor for the class had to be notified to determine a last date of attendance. It should also be noted that the student's last date of attendance was beyond the 60 percent point in the term; therefore, neither the student nor the college was required to repay any Title IV funds.

Community College of Denver currently has procedures to ensure that withdrawal dates for students who withdraw without notification are determined within 30 days after the end of the term.

Implementation date: June 2004.

Return of Grant Overpayments Requirements

Students are not required to repay grant overpayments that are originally less than $25 that occur as a result of a withdrawal. *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 2, Institutional Eligibility and Participation; Chapter 6, Return of Title IV Funds; Dear Colleague Letter GEN-00-24.)*

Adequate procedures are not in place at Pueblo Community College (PCC) to ensure that students are not requested to return grant overpayments that are originally less than $25. In a sample of 30 students (6 from PCC), 1 student was requested to return a $3 Pell grant overpayment. PCC requests students to return grant overpayments that are originally less than $25, which is against regulations.

(CFDA No. 84.063; Federal Pell Grant Program; Special Tests and Provisions.)

Recommendation No. 53:

Colorado Community College System should ensure Pueblo Community College (PCC) establishes procedures to ensure that students are not requested to repay grant overpayments that are originally less than $25.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Pueblo Community College has already established a procedure to ensure that students are not requested to repay grant overpayments that are originally less than $25. However, Pueblo Community College would like to point out that although the U.S. Department of Education Handbook for 2002-03 stated that the student does not have to repay grant overpayments of less than $25, the federal regulation #690.79 stated, "The student is liable for any Federal Pell Grant overpayment made to him or her." The wording on this regulation was changed with the Federal Register of November 2002, which went into effect July 1, 2003, which now states, "A student is not liable for, and the institution is not required to attempt recovery of or refer to the Secretary, a Federal Pell Grant overpayment if the amount of the overpayment is less than $25 and is not a remaining balance." The regulation was not changed until July 2003 to comply with U.S. Department of Education guidance.

Implementation date: June 2004.

Extended Eligibility Period

Students who owe grant overpayments as a result of withdrawals generally will retain their eligibility for Title IV funds for a maximum of 45 days. The student's eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student. If the student takes no positive action during the 45-day period, the school should report the overpayment to the National Student Loan Data System (NSLDS) immediately after the 45-day period has elapsed. *(2002 - 2003 United States Department of Education Federal Student Aid Handbook; Volume 2, Institutional Eligibility and Participation; Chapter 6, Return of Title IV Funds.)*

Adequate procedures are not in place at Pueblo Community College to ensure that students are allowed this 45-day period of extended eligibility. Students who owe grant overpayments as a result of withdrawals are reported immediately (i.e., prior to the expiration of the 45-day period of extended eligibility) to NSLDS. The students' eligibility for Title IV aid ceases when they are reported to NSLDS. Therefore, they are not receiving the 45-day period of extended eligibility to which they are entitled.

(CFDA Nos. 84.007, 84.032, 84.033, 84.063; Title IV; Special Tests and Provisions.)

Recommendation No. 54:

Colorado Community College System should ensure Pueblo Community College establishes procedures to ensure that students are allowed the 45-day period of extended eligibility before they are reported to the National Student Loan Data System if they do not take positive action regarding their grant overpayments during the 45 days.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Pueblo Community College has already established a procedure to ensure that students are allowed the 45-day period of extended eligibility before they are reported to the National Student Loan Data System.

Implementation date: June 2004.

Return of Title IV Funds - Withdrawals

Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive. If a recipient of a Title IV grant or loan fund withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. If the amount disbursed to the student is less than the amount the student earned, and for which the student is otherwise eligible, he or she is eligible to receive a post-withdrawal disbursement of the earned aid that was not received.

Adequate procedures are not in place at Arapahoe Community College to ensure that amounts that could have been disbursed are properly accounted for in return of Title IV funds calculations. In a sample of 30 students (4 from ACC), amounts that could have been disbursed were not properly accounted for in a return of Title IV funds calculation for one student. The college included the student's Pell grant in the return of Title IV funds calculation as having been disbursed, but the Pell grant had not actually been disbursed as of the date of the student's withdrawal. The college should have completed a Post-Withdrawal Disbursement Tracking Sheet; instead, it completed a regular return of Title IV funds calculation for this student. The student was entitled to a post-withdrawal disbursement, which would have gone against outstanding charges on the student's account. Instead, the College requested the student to return $193 to the Pell program, although the student never received a Pell disbursement. ACC indicated that it corrected the calculation and sent the student the post-withdrawal disbursement.

(CFDA No. 84.063; Federal Pell Grant Program; Special Tests and Provisions.)

Recommendation No. 55:

Colorado Community College System should ensure Arapahoe Community College establishes procedures to ensure that amounts that could have been disbursed are properly accounted for in return of Title IV funds calculations.

Colorado Community College System Response:

Agree. The System will work with the college to ensure compliance with financial aid rules and regulations. Arapahoe Community College has established procedures to ensure that amounts that "could have been disbursed" are properly accounted for in the return of Title IV calculations. A post-withdrawal tracking process has been implemented for return of Title IV calculations effective September 1, 2003.

Implementation date: September 1, 2003.

Cash Management Controls

Appropriate cash management requires the timely drawing of federal funds to reimburse local funds initially disbursed for federal programs and the timely reconciliation and review of bank statements. The monthly reconciliations are performed for each bank account to ensure transactions are properly posted at the bank and proper balances are reported in the general ledger. Reconciliations should be performed by an individual with an adequate segregation of duties from other cash procedures.

At Trinidad State Junior College (TSJC), the same individual, the Controller, who performs federal cash drawdowns is also responsible for the reconciliation of bank accounts. These reconciliations are not subsequently reviewed by a supervisor. Also, federal drawdowns were not conducted in a timely manner. Federal drawdowns were only conducted three times during the fiscal year. In addition, reconciliations performed by the Controller were not reviewed by a second individual during the year. If federal drawdowns are not conducted timely, local funds that were used for the original disbursements cannot be used for other cash needs or for generating earnings. Additionally, errors may be made in reconciliations, or reconciling items may not be cleared timely to ensure accurate financial reporting. Appropriate cash management procedures will optimize cash utilization within the TSJC and ensure cash is properly reflected for financial reporting purposes.

(CFDA Nos. 84.007, 84.033, 84.063; Title IV; Cash Management.)

Recommendation No. 56:

Colorado Community College System should ensure Trinidad State Junior College implements procedures such that cash drawdowns are conducted routinely (i.e., monthly), and that bank reconciliations are reviewed by the appropriate supervisor and documentation of the review is affixed to the reconciliation. The supervisory review should include clerical testing of the reconciliations, as well as follow-up procedures to ensure all unreconciled items are investigated and resolved.

Colorado Community College System Response:

Agree. The System will work with the college to ensure that financial aid rules and regulations will be followed. Trinidad State Junior College will implement procedures including routine cash drawdowns and bank reconciliations reviewed by the appropriate supervisor. Documentation of the review will be affixed to the reconciliation, and unreconciled items will be investigated and resolved.

Implementation date: June 2004.

Agriculture Business Management and Small Business Management Overview

Students enrolled in the Agriculture Business Management (ABM) and the Small Business Management (SBM) programs may receive funds from the federal government to assist with college costs. To receive federal financial aid, students must meet eligibility requirements established by the U.S. Department of Education. During a performance audit of the *Reporting Student Enrollment in the Agriculture Business and Small Business Management Programs*, we reviewed financial aid files for a random sample of 235 students enrolled in these two programs at Trinidad State Junior College, Morgan Community College, Northeastern Junior College, Otero Junior College, and Lamar Community College. As part of our review, we determined whether the student's financial aid was disbursed in accordance with federal requirements. On the basis of our calculations regarding the actual amount of educational instruction provided to a sample of ABM and SBM students, we question the amount of federal financial aid provided to students.

During Fiscal Year 2003 the Office of the State Auditor conducted a performance audit on Reporting Student Enrollment at the Agriculture Business Management and the Small Business Management programs. The audit comment below was contained in the *Reporting Student Enrollment in the Agriculture and Small Business Management Programs Performance Audit,* Report No. 1501, dated November 2003.

Federal Pell Grants

Pell Grants are a primary source of federal financial aid available to students in the ABM and the SBM programs. In Fiscal Year 2002, 107 out of the 235 students in our sample, or 46 percent, received Pell Grants in the amount of approximately $323,000. Eligibility criteria include that the student has a demonstrated financial need, has earned a high school diploma or a GED certificate, is enrolled as a regular student working toward a degree or certificate, and has complied with satisfactory academic progress standards. Students receive federal financial aid based on the student's Expected Family Contribution (EFC), the cost of attendance, and enrollment status. There are four categories of enrollment status based on the credit hours for which the student enrolls for one academic year: Full-Time (24 credit hours), Three-Quarter Time (18 credit hours), Half-Time (12 credit hours), and Less than Half-Time (less than 12 credit hours).

We identified two concerns regarding the amount of Pell Grant financial aid received by students in the ABM and SBM certificate programs. These include:

- **Overstated Credit Hours.** Students enrolled in the ABM and SBM programs receive Pell Grant assistance on the basis of being enrolled as either a full-time student (24 credit hours), or a three-quarter-time student (18 credit hours). We sampled 76 randomly selected students who were enrolled in either the ABM or SBM certificate program during the fall 2001 and spring 2002 semesters or the spring 2002 and fall 2002 semesters to determine the actual amount of documented instruction provided to these students. On the basis of the documentation for this random sample of students, we found that the individual community colleges are overstating the actual amount of instruction offered and given to students and, therefore, the amount of credit hours provided to the students. Because the amount of instruction offered and provided does not match the credit hours reported, we question the amount of Pell Grant assistance given to students in the ABM and SBM certificate programs.

Using our calculations for the amount of instruction provided and the Pell Grant award schedules, we believe that the 107 students in our sample receiving Pell Grants for Fiscal Year 2002 should have only received about $150,000 instead of the $323,000 they actually received. Federal regulations state that "a Pell overpayment occurs any time the student receives a payment that is greater than the amount for which the student is eligible." Eligibility factors include the number of credit hours for which the student enrolls. According to the U.S. Department of Education, a college must be able to demonstrate that it actually offered the number of hours it claims are in the academic program. We are concerned that because of the difference in the hours actually offered and given by the colleges as opposed to what was advertised to be offered, the U.S. Department of Education may disqualify a portion of the Pell grant assistance given to each ABM and SBM student.

- **Lack of Attendance.** Federal requirements guiding Pell Grant payments state that colleges must be able to document that a student attended at least one day of class for all courses for which he or she received federal financial aid. The regulations allow colleges to determine the methods that can be used to document attendance. Student course attendance can be documented through a variety of methods, such as attendance sheets, one-on-one instruction recorded by instructors, written tests, term papers, quizzes, or student journals recording cooperative self-study hours. If such attendance cannot be documented, the college must recalculate the student's financial aid award based on the lower enrollment status. On the basis of information provided by the colleges, we cannot confirm that all students enrolled in the ABM and the SBM programs attended one class. The colleges do not necessarily maintain attendance records. For example, Morgan Community College reported that no attendance information exists for classroom lectures. Trinidad's main campus and Northeastern have limited attendance records. At Otero Junior College, we identified 21 students who failed to attend a lecture during the fall 2001 semester and 28 who never attended during the spring 2002 semester. For those students who did not attend a lecture, the community college must be able to show the student received one-on-one instruction or performed cooperative education hours. Under federal guidelines, without documentation of attendance, the college may have to repay all federal financial aid received by the ABM or SBM student.

  Federal regulations state that any overpayment of Pell Grant assistance to a student, such as when a student never attends class, must be repaid to the federal government. These required repayments could have a significant financial impact on the community colleges and the Colorado Community College System as a whole. As the governing entity for the community colleges, the System needs to make sure that colleges have documentation to demonstrate that all students enrolled in the ABM or the SBM programs attended at least one class, received one-on-one instruction, or performed cooperative education hours. For those students for whom documentation does not exist, the System must ensure that the required repayment occurs.

(CFDA No. 84.063; Federal Pell Grant Program; Eligibility, Special Tests and Provisions.)

Recommendation No. 57:

The Colorado Community College System should work with the community colleges and the U.S. Department of Education to evaluate Pell Grant assistance to students in the Agriculture Business Management (ABM) and the Small Business Management (SBM) programs. As part of its evaluation, the System needs to verify that documentation exists to show that students who enrolled in the ABM or SBM program and received federal financial aid attended a lecture class, received one-on-one instruction, or performed cooperative education hours. For those students for whom documentation does not exist, the System needs to work with the community colleges to reimburse the federal government for excess amounts claimed.

Colorado Community College System Response:

Partially agree. The CCCS will work with the colleges, and the U.S. Department of Education, if necessary, to ensure that federal financial aid was awarded and disbursed in compliance with state and federal guidelines. However, we believe that students in the ABM and SBM programs who received federal Pell Grants were awarded correctly, and that reimbursement is, therefore, unwarranted. Nevertheless, we will work with the colleges to ensure that compliance is documented.

Implementation date: January 2004.

Colorado School of Mines

The Colorado School of Mines was founded on February 9, 1874. The primary emphasis of the Colorado School of Mines is engineering, science education, and research. The School operates under the authority of Article 40, Title 23, C.R.S.

The following comments were prepared by the public accounting firm of BKD, LLP, which performed Fiscal Year 2003 audit work at the Colorado School of Mines.

Receipt and Use of Federal Funds

The Colorado School of Mines (the University) participates in numerous federal grant programs throughout the year. These grants are largely for research and development programs within the University and for student financial aid. Research and development and student financial aid were tested as major programs under the Office of Management and Budget (OMB) Circular A-133 for the fiscal year ended June 30, 2003. During the year that the University had expenditures under these federal grants of $18.3 million. Our testing noted instances of noncompliance with the requirements of federal grants or OMB Circular A-133 as follows.

Improve Subrecipient Monitoring

In the fiscal year ending June 30, 2003, the University reported on its Schedule of Federal Assistance funds totaling $4,448,635 passed through to subrecipients in 19 programs.

The requirements set forth in the OMB Circular A-133 provide that pass-through entities (in this case the University) obtain reasonable assurance that federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtains required audits and takes appropriate corrective action on audit findings. During our testing of research and development grants, we found that the University did not adequately document information about its subrecipient monitoring.

The University designates a principal investigator for each grant, usually a university professor. This investigator is responsible for approving all expenditures submitted by subrecipients and for supervision of the subrecipient. While proper supervision may be occurring, the University did not have documentation to support the monitoring process. Without the documentation, it is not possible to determine if all federal requirements have been met.

The University should maintain a database that lists all subrecipients. The database should document that the subrecipients have received an OMB Circular A-133 audit and are aware of the guidelines of this regulation. University personnel should then document their review of the audit and respond to any reported findings and questioned costs. If the University does not receive an A-133 audit from the subrecipient, a certification letter should be sent to the subrecipient. The subtitles on the certification letter should include the following: (1) audit not complete, (2) audit complete/no findings, (3) audit complete/related findings, or (4) not subject to audit. The database should also track any other communication or monitoring of the subrecipient by the principal investigator. If a certification letter or A-133 audit is not returned, the subrecipient should be considered not in compliance. If a subrecipient is not in compliance, the principal investigator should be notified. The principal investigator should inform the subrecipients that payments will be withheld until they are in compliance with the regulations.

(See Appendix A, Colorado School of Mines, for listing of applicable CFDA Nos.; Subrecipient Monitoring.)

Recommendation No. 58:

The Colorado School of Mines should develop subrecipient monitoring documentation policies and procedures to help ensure that subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.

Colorado School of Mines Response:

Agree. Procedures were defined and documented in May of 2003 for collecting the subrecipient financial information, outlining when letters to the subrecipients will be mailed, and defining the response tracking requirements and instructions for the Controller to withhold and suspend payments to subrecipients who fail to respond. Full implementation of the recommendation will occur by the end of Fiscal Year 2004.

Implementation date: June 2004.

Proper Close-Out Procedures

During the year ended June 30, 2003, the University completed approximately 100 projects for which it received federal research and development grants. To ensure compliance with applicable laws, regulations, and provisions of each grant, the University documents "close-out" procedures for each project completed. Documentation of close-out procedures includes contractual and financial status checklists and conversation logs between the department receiving the grant and the grantor. Close-out procedures are in place to ensure that additional expenses are not charged to the project after it has been completed. In our testing, 2 of the 20 closed projects tested lacked written documentation of close-out procedures due to an oversight in the grant department. While we did not observe improper expenditures in this grant, there is risk to the University when the policies are not followed.

(See Appendix A, Colorado School of Mines, for listing of applicable CFDA Nos.; Other.)

Recommendation No. 59:

The Colorado School of Mines should follow its policies and procedures to help ensure close-out procedures are documented for each project completed to prevent erroneous expenses being charged to these projects and help ensure compliance with applicable laws and regulations.

Colorado School of Mines Response:

Agree. The Department Director has reviewed the close out procedures with the staff and is confident that the procedures will be followed in the future.

Implementation date: Implemented.

Transmissions to the National Student Loan Data System

The University has 1,842 students who received approximately $8,380,031 in loans under the Federal Family Education Loan (FFEL) program. Under the FFEL program, the University is required to communicate to lenders and guarantors changes in student status when students graduate, withdraw, or drop out. The University performs the required communication through the National Student Loan Data System (NSLDS). The University transmits all required information to NSLDS, which makes the information available to lenders and guarantors. The transmission to NSLDS for 360 spring graduates did not include final grades for the spring semester; as a result, graduation dates were not included for students that graduated in May 2003. This was due to sending the transmission to NSLDS prior to entering the final grades into the system. The University did retransmit the information once the problem was detected. This is a violation of the provisions of the FFEL program. As a result of NSLDS's not receiving this information, and therefore, the lenders not receiving graduation dates, students that graduated would not have gone into repayment status on their loans at the correct time. The University should determine the cause of the missing information and develop a report review system to ensure all required fields are communicated in the future.

(CFDA No. 84.032; Federal Family Education Loans; Special Tests and Provisions.)

Recommendation No. 60:

The Colorado School of Mines should develop policies and procedures to help ensure that all communications with the National Student Loan Data System are complete, accurate, and timely.

Colorado School of Mines Response:

Agree. The office is currently under new management, following the hiring of a new Registrar, and controls have been added at the end of the fall 2003 semester to avoid this problem in the future. These controls include requiring that the Registrar review and approve the file prior to submission. The fall 2003 final file was sent on time, with the appropriate information, after grades and degrees were posted.

Implementation date: June 2004.

Student Loan Division

The Colorado Student Loan Program (CSLP or Student Loan Division or the Division) was created by an act of the Colorado Legislature in June 1979 to assist Colorado residents in meeting expenses incurred in availing themselves of higher education opportunities. CSLP's mission is to provide students with access and choice in higher education by ensuring the availability and value of financing programs.

The following comments were prepared by the public accounting firm of Clifton Gunderson LLP, which performed Fiscal Year 2003 audit work at the Student Loan Division.

Under Billings of Default Aversion Fees for Consolidation Loans

The Colorado Student Loan Program engages in default aversion activities designed to prevent the default on a loan by a borrower. Among other activities, the CSLP's default aversion activities provide collection assistance to the lender on a delinquent loan, including due diligence activities, prior to the loan being legally in a default status. Under the federal Higher Education Act of 1965, Sections 422A and 422B, the CSLP is allowed to bill for default aversion fees (DAFs) to the federal government by transferring these fees from CSLP's Federal Fund to its Operating Fund to be used in the operations of the Division. The fee is based on one percent of the total unpaid principal and accrued interest owed on the loan in cases where the lender requests default aversion assistance.

During our audit of the CSLP for Fiscal Year 2002, we identified duplicate billing errors related to the DAF. As a result of the duplicate billings, excess funds in the amount of $420,643 were transferred from the Federal Fund and used for the operations of the CSLP. In addition, we identified another problem in which the DAF was not calculated on the principal and interest amounts owed at the time the default claim was filed as it should be, but rather on the current principal and interest amounts at billing. Using incorrect principal and interest amounts in computing the DAF resulted in over-billing $731 in fees to the Federal Fund. In both instances, the problem areas were corrected and the adjustment to the financial statements was made as of June 30, 2002.

During our audit for Fiscal Year 2003, CSLP identified further billing problems regarding the DAF, which were communicated to the U.S. Department of Education auditors in June 2003. CSLP tracks some consolidation loans on a stand-alone database while other consolidation loans are tracked on the main system. During Fiscal Year 2003, the CSLP has been in the process of converting all consolidation loans on the stand-alone system onto its mainframe guarantee system. As part of the conversion, the CSLP's Quality Assurance team performed reviews of data from the stand-alone system. During this process, the following errors were identified:

- Eligible loans entering delinquency status prior to system automation for DAF billings in June 2000 were never billed for the fee. This resulted in unbilled DAF charges of $856,787 on 4,327 loans as of May 2003. In other words, these fees should have been billed to the Federal Fund and transferred to the Operating Fund but were not.

- Refunds or transfers of the DAF fee back to the Federal Fund are made when a default claim is subsequently paid. CSLP identified 442 loans as of May 2003 where DAF refunds totaling $63,237 were transferred back to the Federal Fund, although the DAF was never originally billed to the Federal Fund.

- Adjustments made to DAF billings by CSLP staff resulted in 22 loans as of May 2003 with $154,315 in over-billings of DAF fees to the Federal Fund. The adjustments were due to the decimal errors or other data variances and were identified by the CSLP Quality Assurance Team.

As of May 2003 the net effect of these errors identified by CSLP was $765,709 in DAF billings that should have been billed to the Federal Fund and transferred to the Operating Fund.

The CSLP completed the conversion of consolidation loans from the stand-alone system onto the mainframe guarantee system in August 2003. The CSLP reports that the mainframe guarantee system contains significantly more automation and functionality than was available on the stand-alone system, which should help prevent further errors related to DAF billings. Specifically, the mainframe guarantee system contains a DAF quality assurance system process that reviews all active default aversion requests and cancellations and determines whether or not default aversion fees have been billed previously. If discrepancies are identified, the DAF billing program is not run until the issues are resolved. The CSLP believes that as a result of the reviews performed by the Quality Assurance team, all problems related to the DAF billings on the stand-alone system have been identified and resolved. However, CSLP is currently in the process of still testing the conversion and will need to verify and ensure that the controls put in place within the new mainframe guarantee system are operating as intended.

(CFDA No.84.032; Federal Family Education Loans; Reporting, Special Tests and Provisions.)

Recommendation No. 61:

The Colorado Student Loan Program (CSLP) should continue to ensure that adequate controls are in place over default aversion fees by ensuring that all data on consolidated loans converted to the mainframe guarantee system are adequately tested to avoid unforeseen problems and impacts on the mainframe system. Additionally, the CSLP should continue to monitor controls established in the mainframe system for default aversion fees and resolve all discrepancies identified.

Student Loan Division Response:

Agree. The CSLP took the following actions:

1. Established a Quality Assurance Team to review all applicable federal statutes, regulations and system specifications to ensure that CSLP's mainframe processes default aversion loans, billings and refunds correctly and in a timely manner.

2. On August 9, 2003, CSLP successfully converted all consolidation loans to the mainframe from an Access database. This effort reduces the likelihood of future errors due to the complexity of having consolidation loans on a separate database.

3. The Quality Assurance Team conducted a thorough review of all consolidation loans eligible, billed and refunded prior to converting the consolidation loans.

4. CSLP IT working with the Quality Assurance Team completed all system changes necessary to ensure that henceforth, CSLP will report all loans, billings and refunds correctly.

CSLP has implemented both weekly and monthly automated Quality Assurance (QA) processes that are completed prior to the actual default aversion billing. These pre-billing processes are designed to identify any and all exceptions to federal statutes or requirements. We have run six weekly QA checks and one monthly check since January 1, 2004. These QA reports show that the system is now working as intended and that CSLP is properly billing the Federal Government for DAF.

Implementation date: December 2003.

Monitoring the Federal Fund

In addition to the errors in default aversion fees (DAF) noted above that resulted in under billings to the Federal Fund of $765,709 as of June 30, 2003, we also determined that the CSLP had not billed the Federal Fund for DAF due on certain loans since September 2002; these unbilled fees totaled $765,887 as of the end of Fiscal Year 2003. Therefore, at June 30, 2003, the total fees not billed to the Federal Fund were $1,531,596. The CSLP staff stated that these fees were not billed to the Federal Fund and transferred into the Operating Fund because the transfer would have caused the CSLP's Federal Fund to fall below its Federal Reserve Requirement. According to Section 428(c)(9)(A) of the federal regulations, the CSLP is required to maintain a reserve in the Federal Fund of 0.25 percent of the unpaid balance of outstanding loans guaranteed by the agency which is reported to the U.S. Department of Education (DE) on September 30 of each year. The Federal Higher Education Act states that if a guaranty agency falls below the required minimum reserve level in any two consecutive years, reimbursement payments for reinsurance will be reduced. For CSLP, this would result in a reduction in federal reimbursements payments on defaulted loans from a current range of 100 percent to 85 percent in the event of default.

In August 2002, CSLP was required to pay $24,845,989 from the reserves of the Federal Fund to DE as part of Balanced Budget Act of 1997 and the 1998 Reauthorization of Higher Education Act. In addition to the reserved paid to DE, the Federal Fund has recorded a net loss from operations of ($1,330,901) and ($1,077,619) for the years ended June 30, 2003 and 2002, respectively.

In an effort to subsidize these losses occurring in the Federal Fund and maintain reserve levels, in September 2003 CSLP management transferred $1.7 million from the Operating Fund into the Federal Fund. Our calculation at September 30, 2003 found that if this transfer was not made, CSLP would have been below the required reserve by approximately $250,000. The Higher Education Act of 1965, Section 422B(d)(2) states that a guaranty agency may, at its discretion, transfer funds into the Federal Fund; however, such transfers are irrevocable and therefore cannot be treated as "loans." In October 2003 the CSLP billed the Federal Fund for $1,777,402 in accumulated DAF ($1,531,596 due as of June 30, 2003 plus $245,806 due from

August through October 2003). Therefore, while the CSLP was able to collect the fees due from the Federal Fund, it did so by subsidizing the Federal Fund at the time the measurement of the reserve was required, with operating revenue earned by the Operating Fund. The primary sources of operating revenue for the Operating Fund include CSLP's share of collections on loans and bankruptcies, account maintenance fees, loan processing and other contractual service fees.

CSLP is working to identify alternative plans to ensure that the reserve will be met by September 30, of each year without the subsidy from the operating revenue earned by the Operating Fund. These procedures should ensure that other options, such as charging additional allowable fees or investigation of other solutions, are pursued and implemented in a manner that eliminates or reduces the need for the Operating Fund to support the Federal Fund. Successful implementation of available options would allow the CSLP to transfer the default aversion fees to the Federal Fund on a timely basis. Without changes in the fee structure or other alternatives, CSLP will continue to need to subsidize the Federal Fund.

(CFDA No. 84.032; Federal Family Education Loans; Reporting, Special Tests and Provisions.)

Recommendation No. 62:

The Colorado Student Loan Program (CSLP) should continue to follow established procedures to monitor the Federal Fund with emphasis on:

a. Determining the adequacy of funding to maintain required reserves and taking timely action, such as charging other allowable fees and investigating other solutions, to address potential problems by means other than using the Operating Fund to subsidize the Federal Fund.

b. Contingent upon establishing adequate funding and reserves for the Federal Fund, making transfers of default aversion fees to the Operating Fund as permitted under the federal Higher Education Act.

Student Loan Division Response:

a. Partially agree. The agency suspended charging the guarantee fee for the Federal Fund in 1999. CSLP was relying on interest earnings on funds already noticed by the federal government as subject to recall to maintain its reserve ratio in the Federal Fund. The decision was not financially sustainable. Because the Federal Fund revenue did not keep pace with the Fund's expenditures, the agency will continue to subsidize the Federal Fund from the Operating Fund even as allowable fees are charged in the future.

Although the agency is taking timely action to resolve this issue, it does not have exclusive service jurisdiction in Colorado and competes with other guarantee agencies for Colorado business. While CSLP has been successful in the past 18 months in gaining new guarantee customers, the new revenues will not immediately compensate for the past losses.

Implementation date: Charging other allowable fees, July 1, 2004; remaining issues, ongoing.

b. Disagree. CSLP will continue to monitor its cash position and the long-term obligations of its Federal Fund on a monthly basis. The agency will make the transfers of funds due it as permitted by the Federal Higher Education Act of 1965.

   However, current projections forecast a need to subsidize the Federal Fund from Agency Operating Fund revenues for the next several years.

   Implementation date: Not applicable.

Auditor's Addendum: We note that the CSLP has agreed to make the transfers, contingent on the availability of funds.

Colorado Student Obligation Bond Authority

The Colorado General Assembly established a student obligation bond program, a post-secondary education expense program, and a college savings program, which are administered by the Colorado Student Obligation Bond Authority (d.b.a. CollegeInvest). The programs assist residents in meeting the expenses incurred in availing themselves of higher education opportunities.

Special Allowance Payments

The Student Loan Program Funds issue bonds in order to originate and purchase student loans under the Federal Family Education Loan Program (FFEL) reported under CFDA No. 84.032. The FFEL program was created and is managed under Title 34, Chapter VI, Part 682 of the Code of Federal Regulations (CFR). Pursuant to Title 34, CollegeInvest is eligible to receive special allowance payments (SAP) from the Federal Government. CollegeInvest receives special allowance payments on eligible loans for a certain percentage of the average unpaid principal balance of a loan. Loans made from bond proceeds originally issued prior to October 1, 1993 receive a higher percentage of reimbursement for SAP in lower interest rate environments than loans made from bond proceeds issued after that date. This higher level of special allowance payments is referred to as Floor SAP. It is crucial for an entity to track the proceeds available to make loans from bond issues prior to October 1993 so that the entity receives the appropriate reimbursement for SAP from the federal government to which the entity is entitled.

In August 2002, CollegeInvest refunded three series of bonds issued prior to October 1, 1993. CollegeInvest had been receiving Floor SAP on the loans financed from these bonds (the existing loans). CollegeInvest carried over the pre-October 1, 1993, bond characteristics to the 2002 refunding bond series as its proceeds were used to refund pre-October 1, 1993, bonds. The existing loans were not initially transferred to this series. At the time of the refunding, CollegeInvest also used reserves, initially set aside to repay the refunded bonds, to purchase new student loans (the new loans) within the 2002 refunding bond series that assumed the pre-October 1, 1993, characteristics. CollegeInvest billed and collected Floor SAP on the new loans and the existing loans in accordance with the U.S. Department of Education policy. This practice of billing and collecting Floor SAP on both the existing loans and the new loans, although used by some entities, had not been used by CollegeInvest prior to this transaction. CollegeInvest discussed this transaction with third-party consultants at the time of the August 2002 refunding. Written documentation regarding the consultation with third party consultants was not maintained by CollegeInvest. At the time of management's decision regarding this issue, CollegeInvest did not require that decisions of this nature be presented to the Board of Directors for approval. During the year-end calculation of CollegeInvest's excess earnings for Fiscal Year 2003, this practice of billing Floor SAP on the existing loans and the new loans was revisited. Subsequent to the date of the refunding, the United States General Accounting Office recommended that the U.S. Department of Education amend its regulations to disallow this practice. Accordingly, CollegeInvest decided to take a more conservative approach. CollegeInvest modified the transaction by transferring the existing loans, as of the date of the refunding, into the 2002 refunding bond series and retained the Floor SAP collected on these loans. CollegeInvest then transferred the new student loans, which had previously been issued within the 2002 refunding bond series, to a post-October 1, 1993, bond series and determined that the Floor SAP that had been collected on the new loans would be refunded to the federal government. As a result of this change, CollegeInvest reduced the special allowance payments billed for the quarter ended June 30, 2003, and its receivable from the federal government as of June 30, 2003, by the estimated Floor SAP in the amount of $766,000.

(CFDA No. 84.032; Federal Family Education Loan Program; Other.)

Recommendation No. 63:

CollegeInvest should adopt a policy requiring that certain safeguards be in place for changes in interpretations of the federal regulations prior to implementation. The policy should include:

a. Requiring that adequate research be performed and written documentation obtained such as opinions from third-party consultants to support the interpretation.

b. Obtaining formal documented approval from management and the Board of Directors on new interpretations and procedures.

CollegeInvest Response:

Partially agree. CollegeInvest does formal research and follows recommendations from industry experts, including bond counsel, underwriters, and financial advisors. It will formally document that research in the future.

However, CollegeInvest and the Board believe that the appropriate support and discussion occurred in conjunction with both the initial decision and the subsequent decision to change how Floor SAP was handled. Material changes in facts and circumstances occurred after the initial decision had been made that caused the organization to revisit its initial decision. The refunding of the Floor SAP was a result of a philosophical change in how CollegeInvest believed it should bill for these loans, and not as a result of a dispute over the appropriateness of such billing.

Implementation date: February 2004.

Auditor's Addendum:

As described in the narrative, CollegeInvest did not discuss the initial decision with the Board of Directors, even though this was a departure from the way CollegeInvest had previously billed and collected Floor SAP on existing and new loans. CollegeInvest should obtain formal documented approval from management and the Board of Directors for departures that can result in a change from $766,000.

Bond Identification Numbers

CollegeInvest utilizes Nelnet and the Colorado Student Loan Program (CSLP), third party servicers, to process student loan transactions. Each student loan issued is assigned a bond identification number (Bond ID) which corresponds to a particular bond issue. These Bond IDs are used by the third party servicers to "group" loans for purposes of determining the special allowance payments (SAP). On January 1, 2002, Nelnet implemented a new servicing system. In April 2002, CollegeInvest reviewed all of the Bond IDs established and determined that one particular Bond ID was incorrect and requested a change. The change was authorized verbally by an employee of CollegeInvest without a higher level of approval for the changes. The change resulted in a lower rate of SAP being collected by CollegeInvest on the changed Bond ID. During CollegeInvest's annual review of Bond IDs, it was discovered that the change requested by CollegeInvest in April 2002 to the Bond ID was not correct. CollegeInvest has requested the correction be made in both Nelnet and CSLP's systems to retroactively correct the misclassification. CollegeInvest calculated the additional amount that should have been received from the federal government at $450,000. Approximately $33,000 is attributable to the fiscal year ended June 30, 2002. The remaining $417,000 is attributable to the fiscal year ended June 30, 2003. As a result, at June 30, 2003, CollegeInvest increased the receivable from the federal government for special allowance and interest benefit payments by $450,000.

(CFDA No. 84.032; Federal Family Education Loan Program; Other.)

Recommendation No. 64:

CollegeInvest should strengthen internal controls and minimize the risk of errors by implementing a policy that requires changes/transfers of groups of loans within each of the existing bond indentures or any new Bond IDs created or changed be in writing and approved at a higher level within management than the employee requesting the change.

CollegeInvest Response:

Agree. Compensating controls were in place and identified this problem. However, CollegeInvest will implement a written policy that requires any changes, transfers, or additions of bond IDs to be in writing and approved by a higher level within management than the employee requesting the change. A template of proper Bond ID treatment will be created and utilized to document the proper treatment of Bond IDs. CollegeInvest will obtain written documentation from the Servicer that they are treating Bond IDs in accordance with CollegeInvest's directions.

Implementation date: February 2004.

Department of Human Services

Introduction

The Department of Human Services is responsible, by statute, for managing, administering, overseeing, and delivering human services in the State. While many of these services are provided through county departments of social services, the Department is also responsible for the direct operation of a number of facilities that provide direct services, including mental health institutes, nursing homes, and youth corrections. Please refer to the introduction in the Department of Human Services chapter within the Financial Statement Findings section for additional background information.

TANF Program Fraud and Abuse Standards

In 1996 Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), established federal welfare reform requirements and created the Temporary Assistance for Needy Families (TANF) program. In July 1997 the Department of Human Services (DHS) implemented TANF in Colorado as the "Colorado Works" program.

In Fiscal Year 2003 the Department expended $202 million in federal financial assistance and state general funds for the TANF program. The TANF program is overseen by the Department's Office of Self-Sufficiency and administered locally by the county departments of social services. Each county is responsible for maintaining and following its own Department-approved county plan outlining TANF policies and procedures. According to Department policies, each county is also required to establish and maintain standards and procedures to safeguard against program fraud and abuse.

The Department is responsible to the U.S. Department of Health and Human Services for ensuring that the State as a whole properly administers the TANF program and meets federal requirements. Because of the level of responsibility vested with the counties, the Department must monitor county activities, including fraud policies and procedures, in order to meet its responsibilities.

As part of our Fiscal Year 2003 audit, we reviewed the Department's supervision and administration of the TANF/Colorado Works program. We found that the Department's controls over possible fraud and abuse at the counties within the TANF program are lacking. Specifically, we noted that as of the end of our audit testwork, the Department had not received fraud policies and procedures for 35 of 64 counties, or 55 percent.

We noted similar problems during our Fiscal Year 2001 audit. Specifically, we recommended that the Department require counties to submit standards and procedures to safeguard against program fraud and abuse within a specified time period and review the standards and procedures for compliance to the State Plan. While the Department agreed with our recommendation and indicated it would give guidance to counties concerning standards and procedures to ensure against program fraud and abuse and require them to submit county-specific measures, our findings during our Fiscal Year 2003 audit, as stated above, indicate the Department has not ensured that all counties have established fraud standards and procedures.

The lack of established procedures and monitoring for fraud and abuse is a serious concern. Under the Colorado Works program, counties have been given the authority and responsibility for handling their own fraud cases, and the Department has only limited information on these cases. In addition, county personnel have considerable discretion in the types of payments that can be made to beneficiaries under the program. Without an effective fraud and abuse prevention program in place at the county level, the Department cannot ensure that counties have the necessary policies and procedures in place to monitor the activities of program personnel with regard to the appropriate use of TANF funds. Thus, the Department should ensure all counties establish policies and procedures to safeguard against fraud and abuse. One way the Department could facilitate this requirement is to incorporate the establishment of county fraud policies and procedures into the existing requirement for counties to submit annual TANF plans. The Department must also monitor the counties' compliance with the establishment of fraud procedures during the Department's site visits.

(CFDA No. 93.558; Temporary Assistance for Needy Families; Subrecipient Monitoring.)

Recommendation No. 65:

The Department of Human Services should ensure that adequate controls over fraud and abuse in the TANF program are in place at the counties by:

a. Requiring counties to annually submit policies and procedures to safeguard against program fraud and abuse by a specified date.

b. Reviewing these standards and procedures for compliance to the State Plan and providing timely feedback to the counties as needed.

c. Monitoring for counties' compliance with the policies and procedures during on-site visits to counties.

Department of Human Services Response:

Agree. As of December 30, 2003, the Department has received all 64 county fraud policies and are in the process of reviewing them. We will ask for these on an annual fiscal year basis. Once received, we will review them for compliance to the State Plan and provide appropriate feedback to counties as needed. Additionally, as part of our ongoing onsite county program review process, we will monitor counties' implementation of these policies and also provide appropriate feedback.

Implementation date: June 30, 2004.

Adoption Assistance Program Reviews

In Fiscal Year 2003 the Department of Human Services expended approximately $35 million for the operation of the Adoption Assistance program. The Department receives Adoption Assistance funds, which are governed by Title IV-E of the Social Security Act, from the U.S. Department of Health and Human Services' (HHS) Administration for Child and Families division. The purpose of the program is to provide financial assistance through adoption subsidy payments to families who adopt children with special needs. Children with special needs may include the following:

- A child aged seven or older.
- A child who is physically or mentally disabled.
- A child who is a member of a minority group.
- Infants diagnosed with Human Immunodeficiency Virus (HIV).

The Adoption Assistance program is overseen by the Department's Division of Child Welfare Services within its Office of Child and Family Services and is administered locally by the county departments of social services.

The Department is responsible to HHS for ensuring that the Adoption Assistance program is properly administered and meets federal requirements. Because of the level of responsibility vested with the counties, the Department must monitor county activities in order to meet its responsibilities. The Department's current county monitoring process was implemented as a result of an audit recommendation from our Fiscal Year 1999 audit. The Department's process for monitoring adoption subsidies is to randomly select a sample of cases currently receiving a subsidy payment and determine if the issuing county's process is in accordance with state and federal regulations. If persistent errors are found, the county is responsible for preparing a corrective action plan and the Department has the ability to issue fiscal sanctions.

We found that the Department is not conducting its county reviews in a timely manner. For example, we identified problems with five of the six county reviews included in our sample. Specifically:

- For five counties, the Department did not provide feedback to the county until four months after the review was conducted. Although the five reviews were conducted in April 2003, the counties were not provided a listing of deficiencies noted until August 2003. Deficiencies noted by the Department included missing documentation of annual subsidy reviews. Counties are required to conduct annual subsidy reviews to ensure payment amounts are accurate. Without documentation that these reviews have been performed, counties cannot ensure that payment amounts are appropriate or that over- or underpayments have not been made.

- For three counties, outstanding issues were not resolved until September 2003, or five months after the initial review. We also noted that follow-up was conducted by the Department only after we requested additional information on the resolution of outstanding issues identified in the reviews.

According to Department staff, all 26 county reviews scheduled for Fiscal Year 2003 began in April 2003. The Department selected a total of 80 case files for review from the 26 counties. Based on Department staff members' estimate of the time required to review each case file, the 80 cases selected for review beginning in April 2003 should have been reviewed in about 80 hours and completed by June 2003. However, as noted, five of six counties we selected for review did not receive feedback until August 2003. This is especially disconcerting because for two of the counties reviewed, the Department had selected only three cases and one case, respectively, for examination.

We believe that by performing scheduled reviews throughout the year on a quarterly basis, rather than beginning all reviews within the same month, staff will be able to perform program reviews in a more timely manner. For example, staff within the

Foster Care program, which is also administered by the Department, conduct reviews on an ongoing basis throughout the fiscal year. By implementing a more timely, periodic review process, the Department can ensure that Adoption Assistance issues are addressed and resolved by counties more quickly.

(CFDA No. 93.569; Adoption Assistance; Subrecipient Monitoring.)

Recommendation No. 66:

The Department of Human Services should improve its oversight of the Adoption Assistance program by:

a. Scheduling and performing reviews throughout the fiscal year.

b. Establishing a set time frame for furnishing feedback to the counties.

c. Providing timely feedback to counties of issues identified in program reviews.

Department of Human Services Response:

Agree. The Division of Child Welfare Services has developed a schedule for performing future reviews throughout the fiscal year. The review schedule is set for a February 2004 implementation. The Division has revised its planning schedule to identify in December of each year the county departments to be reviewed in the next calendar year and by January of each year the schedule is developed and made available to county departments. The Division has set a goal of furnishing written feedback concerning reviews within six weeks from the end of the review. The State may provide county departments a 15-calendar day extension when appropriate to complete documentation to close out the review, which could change the final report date.

Implementation date: January 2004.

Child Support Enforcement Overview

According to July 2002 figures from the Division of Child Support Enforcement (Division) within the Department of Human Services, there are approximately 2,400 inmates who are required to pay child support. Of this number, approximately 1,500 were more than 45 days delinquent at that time. Their cases required enforcement action by the State. The Division is responsible for ensuring that all noncustodial parents meet their child support obligations, including inmates. The Division has authorized the individual counties to administer the child support enforcement program.

It is the State's policy to instill personal responsibility in parents owing child support. The legislative declaration in the Colorado Child Support Enforcement Act, at Section 26-13-102, C.R.S., provides as follows:

> The purposes of this article are to provide for enforcing the support obligations owed by absent parents, to locate absent parents, to establish parentage, to establish and modify child support obligations, and to obtain support in cooperation with the federal government pursuant to Title IV-D of the federal "Social Security Act," as amended, and other applicable federal regulations.

Pursuant to this legislative declaration, Child Support Enforcement has a policy of enforcing regular child support payments even at very low dollar levels in order to promote personal responsibility among noncustodial parents.

During Fiscal Year 2003 the Office of the State Auditor conducted a performance audit of Inmate Restitution and Child Support. The audit comments below were contained in the *Inmate Restitution and Child Support Performance Audit,* Report No. 1477, dated March 2003.

The Department of Corrections (Corrections) establishes and maintains an account for all funds belonging to each inmate in a prison facility. Deposits into inmate accounts come from a variety of sources, including pay earned for attending educational classes or working for either the correctional facility or Correctional Industries, proceeds from the sale of hobby items, receipt of tax refunds, and money sent from family and friends. The Executive Director of the Department of Corrections has the statutory authority to assess an inmate's ability to pay court-ordered restitution or child support. Corrections may deduct a portion of deposits into an inmate's account for purposes of paying such obligations. According to Section 16-18.5-106(2), C.R.S., no less than "twenty percent of all deposits into an inmate's bank account, including deposits for inmate pay, shall be deducted and paid toward any outstanding order from a criminal case or for child support." Corrections' Administrative Regulations exempt indigent inmates from the mandatory 20 percent deduction. Indigent inmates are those who are medically incapable of working or those who have insufficient funds (e.g., deposits of less than $7.60 per month and account balances of less than $10 for the previous 30 days).

In order for counties to collect child support from an inmate incarcerated in a correctional facility, the county must send an Administrative Lien and Attachment (lien) to Corrections. The lien authorizes Corrections to subtract the mandatory deduction from every deposit into an inmate's account to pay child support obligations. Once a month, Corrections sends the child support payments directly to the Family Support Registry. The Family Support Registry processes the payments, which are then sent either to the individual counties to cover previous public assistance payments or directly to the custodial parent or legal guardian. If an inmate owes money on more than one child support order, the money withheld by Corrections for child support is split between the different orders. Therefore, if an inmate owes both restitution and child support, only 10 percent of the mandatory 20 percent deduction will be split between the multiple child support orders.

Automatic Issuance of Administrative Liens for Child Support

The Colorado General Assembly passed legislation in 2000 allowing the collection of child support from inmates using an administrative lien. Pursuant to its statutory authority, the Division of Child Support Enforcement delegated the issuance of liens to the county child support enforcement offices. We found that the centralized issuance of administrative liens by the Division may be a more effective method of enforcement.

In the fall of 2001, the Division implemented a statewide process that encourages the counties to issue administrative liens for all incarcerated noncustodial parents. Legally, the Department of Corrections must receive a lien before it can deduct child support payments from deposits to an inmate's bank account. While counties have made some progress in increasing collections since the introduction of this new enforcement method, we found that counties do not always issue liens in a timely manner.

As part of our audit work, we obtained information from 10 counties to determine their use of the administrative lien process. We found that some counties were inconsistently issuing liens, while others were taking several months to issue the liens. From these counties, we selected a sample of 82 inmates on the February 2002 datamatch who had been ordered to pay child support but were listed as not currently paying. We found that counties had not issued liens on 71 of the inmates in our sample, or close to 87 percent. The reason for the low rate of issuing administrative liens appears to be the counties’ concern that the costs of recovery exceed the benefits. According to Corrections staff, on average, inmates receive $84 per month in deposits and are incarcerated for approximately 24 months. Based on this information, the mandatory 20 percent deduction from all deposits would generate approximately $400 per inmate over the two-year period. If the inmate owed only child support, this entire amount would go to child support. If the inmate owed both child support and restitution, just over $200 would go to child support.

The Division of Child Support Enforcement and the counties also informed us that a core part of their mission is to teach noncustodial parents to provide financial support to their children regardless of the actual amount paid. Even if an administrative lien generates a small amount of money, it reenforces personal responsibility. All of the agencies involved in the child support collections process recognize the importance of reinforcing accountability among noncustodial parents through regular payments. According to the Division, regular payments, however small, can build a sense of long-term commitment, which may lead to increased dollar collections in the future when inmates are out of prison and employed.

In addition, while the amounts in individual cases may be small, in the aggregate the dollars involved are significant. For the almost 1,500 inmates categorized as not paying on the July 2002 datamatch, the counties have the potential to collect a total of between $302,000 if the inmates owe both restitution and child support and $605,000 if the inmates owe only child support (24 months average incarceration).

Even when counties choose to issue liens, there is sometimes a delay of several months between the time the county is notified that the noncustodial parent is incarcerated and the issuance of the lien. This reduces the amount of child support that can be collected from the inmate. A routine delay of four months in issuing liens on delinquent inmates potentially costs needy families and the State an average of between $50,400 and $100,800 in lost child support payments from the 1,500 inmates categorized as nonpaying.

The counties and the Division expressed legitimate concerns about the cost of administering collections for small dollar amounts on many inmate child support payments. Centralizing the issuance of the administrative liens at the state level could be a cost-effective solution that would increase timely collection of child support payments from incarcerated noncustodial parents. The Division already uses a centralized process to issue administrative liens within 10 days against workers' compensation benefits claimed by noncustodial parents owing child support. Centralized issuance of liens against workers' compensation benefits results in early collection of child support payments. Having the Division of Child Support Enforcement automatically issue the liens for inmates based on quarterly data matching from Corrections will ensure that inmate deposits are subject to the mandatory child support deductions earlier. The Division supports the implementation of automatic issuance of administrative liens against incarcerated noncustodial parents and reports that it has placed the necessary system reprogramming on its "should do" list at a cost of $51,000.

During our review of administrative liens, we noted unusual fluctuations in the inmate child support delinquency classifications on the February 2002 and July 2002 datamatches. For example on the February 2002 datamatch, we found a total of 1,800 inmates who owed child support. Approximately 1,000 of these inmates had not made a payment in 45 days and were therefore delinquent. The July 2002 datamatch listed a total of 2,400 inmates who owed child support with 1,500 categorized as not paying for at least 45 days. We brought this to the attention of Division staff who informed us that they would review the data and reporting procedures to determine if there are any data or classification problems.

(CFDA No. 93.563; Child Support Enforcement; Other.)

Recommendation No. 67:

The Division of Child Support Enforcement should develop policies and procedures regarding the automatic issuance of administrative liens for all incarcerated noncustodial parents with a child support order.

Division of Child Support Enforcement Response:

Agree. The Division of Child Support Enforcement has scheduled the development and implementation of an automated administrative lien to the Department of Corrections effective December 31, 2003.

Implementation date: December 31, 2003.

Premature Closure of Child Support Cases

State and federal rules allow counties to close child support cases under certain circumstances. Allowable reasons for closing a case are when the noncustodial parent is institutionalized in a psychiatric facility, is incarcerated with no chance of parole, or has a medically verified permanent disability. However, prior to closing a case for any of these reasons, the county must also determine that the noncustodial parent has no income or assets that can be used to pay child support. We examined a sample of closed cases involving incarcerated noncustodial parents to determine if the counties are complying with state and federal rules for case closure. We found that counties are closing cases simply because the noncustodial parent is an inmate. Seven of the ten counties we visited close child support cases solely on the basis of inmate status. This violates both state and federal rules and results in lost child support collections.

The Division of Child Support Enforcement has been aware of problems with case closure for some time. In April 2002 the Division conducted a federally required self-evaluation of child support operations during the period October 2000 through October 2001. The evaluation found unacceptable rates of case closure, in part caused by inmate cases. In addition, Division staff reported that counties were informed in November 2001 that cases involving incarcerated noncustodial parents could not be closed unless Corrections certifies that the inmate has no income or assets. The counties were provided this information orally in meetings with county staff and in writing through the issuance of a formal lien-implementation tool kit sent to all counties. Corrections representatives indicated that few county representatives have requested such certification. Corrections staff noted that an inmate's indigent status can change on a monthly basis and that they have few inmates who are permanently indigent. In addition, our review of inmate account records for a sample of 155 inmates who owed child support revealed that only one of these inmates was indigent, or without any income or assets, for the entire four-month period.

In order to ensure that counties comply with state and federal rules for case closure, the Division of Child Support Enforcement should develop a system to actively monitor case closures. Since counties were notified to stop closing cases involving incarcerated noncustodial parents in November 2001, the Division needs to have its Monitoring Unit review all cases of currently incarcerated noncustodial parents including those closed since December 2001. All child support cases that were closed inappropriately need to be reopened and, if appropriate, an administrative lien issued. Finally, the Division of Child Support Enforcement needs to take steps to ensure that, in the future, counties do not inappropriately close cases involving inmates.

(CFDA No. 93.563; Child Support Enforcement; Other.)

Recommendation No. 68:

The Division of Child Support Enforcement should develop a system to actively monitor case closures by:

a. Developing a method to review closed cases involving incarcerated noncustodial parents on a continual basis.

b. Requiring its Monitoring Unit to review closed child support cases involving an incarcerated noncustodial parent.

c. Reopening any improperly closed cases immediately and ensure an administrative lien is issued, if appropriate.

d. Providing additional training to ensure that all counties are aware of the case closure requirements for cases with incarcerated noncustodial parents.

e. Taking steps to ensure counties comply with state and federal rules regarding case closures for incarcerated noncustodial parents.

Division of Child Support Enforcement Response:

a. and b.: Agree. By June 2003 the Division will develop a report that identifies currently incarcerated obligors with a Title IV-D case that has been closed since December 2001. These cases will be reviewed by the Division to determine if the case was closed inappropriately. If the case was closed inappropriately, the county child support unit will be notified to reopen the case and take the appropriate action. This procedure will be completed quarterly.

Implementation date: June 2003.

c. Agree. As described above, the county child support office will be notified to open a child support case if closed inappropriately.

Implementation date: June 2003.

d. Agree. The Division will provide training by December 31, 2003, to county child support enforcement staff on case closure with special emphasis on criteria that must be met in order to close cases when the obligor is currently incarcerated.

Implementation date: December 31, 2003.

e. Agree. The Division will continue to review closed cases to ensure compliance with federal and state rules regarding case closure.

Implementation date: June 2003.

State and Veterans Nursing Homes Overview

The Division of State and Veterans Nursing Homes (Division) in the Department of Human Services was established in the mid-1980s to oversee state-owned nursing homes. The Division currently oversees six nursing homes and one domiciliary that provide skilled nursing and domiciliary care primarily to honorably discharged veterans and their spouses, widows, and, in some instances, parents of deceased veterans. These facilities are located at the Fitzsimons site in Denver and in Florence, Homelake (nursing home and domiciliary), Rifle, Trinidad, and Walsenburg. Under statutes, the Division is responsible for overseeing all six facilities. Five of the homes are operated directly by the Division; the Walsenburg Home is operated by the Huerfano County Hospital District under contract with the Department of Human Services. Five of the facilities - Fitzsimons, Florence, Homelake, Rifle, and Walsenburg - currently participate in the U.S. Department of Veterans Affairs (VA) state home program to provide skilled nursing care to eligible veterans. In the case of the Trinidad Home, the Division has not sought VA certification and the home has always been open to all qualifying residents of Colorado.

The following comments were prepared by the public accounting firm of Clifton Gunderson LLP, which performed audit work at the Department of Human Services. The comments were contained in the *Colorado Department of Human Services, State and Veterans Nursing Homes Performance Audit*, Report No. 1514, dated October 2003.

Federal Reimbursement

During our review we determined that the Division of State and Veterans Nursing Homes implemented a policy change regarding how VA per diem payments are treated with respect to the Medicaid program. This change and its impact are discussed below. While this change has resulted in increased revenue to the five state veterans homes, we are concerned that it may not be in compliance with federal requirements.

Revenue for the state and veterans nursing homes is generated primarily through payments received from private pay patients, Medicaid, the VA per diem program, and various pensions received by patients. Overall Medicaid occupancy averaged 54 percent of the patient population for Fiscal Years 2000 through 2002 for all of the homes. For the four homes certified by VA during that period, the overall Medicaid occupancy averaged 44 percent and veteran occupancy averaged 89 percent of patient population over this three-year period.

As of Fiscal Year 2003, five of the homes (Rifle, Florence, Homelake, Fitzsimons, and Walsenburg) are VA-certified. According to federal regulations, in order to be certified by the VA, the nursing home must: (a) send a request for recognition and certification to the VA Undersecretary of Health; (b) allow VA to survey the facility; and (c) upon request from the director of the VA medical center of jurisdiction, submit documentation related to the payment of the VA per diem. The survey, as necessary, covers all parts of the facility and includes a review and audit of all records of the facility that have a bearing on compliance with VA requirements.

VA-certified facilities are eligible to receive a daily per diem for eligible veterans in accordance with federal law. VA per diem rates for the past three federal fiscal years are documented in Table 1.

Table 1. State and Veterans Nursing Homes
VA Per Diem Rates
Federal Fiscal Years 2001 Through 2003

Federal Fiscal Year	Effective Dates	VA Daily Per Diem
2001	10/1/00 - 9/30/01	$51.58
2002	10/1/01 - 9/30/02	$53.17
2003	10/1/02 - 9/30/03	$56.24

Source: U.S. Department of Veterans Affairs.

Prior to December 2001 the State's VA-certified facilities subtracted the VA per diem from monthly billings to the Medicaid program on behalf of qualifying patients. Thus, the VA per diem rate was treated as a third-party payment and reduced the amount paid by the Medicaid program to the homes. As of December 1, 2001, a change in the Medicaid billing process related to the VA per diem was implemented by the homes at the Division's direction. Specifically, the Division's documented policy instructed the homes not to subtract the VA per diem from Medicaid billings. Effectively, the change resulted in the homes' receiving reimbursement of the full Medicaid daily rate in addition to the daily VA per diem. Additionally, as a result of this change, it appears that in some cases the Department may have received more than its published daily semi-private room rate for Medicaid-eligible, veteran patients. For example, during Fiscal Year 2003, the Rifle Home would have received $175 from a private-pay resident in a semi-private room, but the Home would have received $214.74 for a Medicaid-eligible veteran during the same time period ($158.50 Medicaid rate plus $56.24 VA per diem), or almost $40 more. Table 2 shows the semi-private room rate charged to self-pay residents by each VA-certified home during Fiscal Year 2003 compared with amounts received from Medicaid and VA per diem payments for Medicaid-eligible, veteran patients on a per patient day basis under the homes' revised billing process. As shown, for all homes except Fitzsimons, Medicaid and VA payments received on behalf of each qualifying patient exceeded the semi-private room rate charged by the homes.

Table 2. State and Veterans Nursing Homes[1]
Daily Semi-Private Room Rate vs. Daily Rate for Medicaid-Eligible Veteran Patients
Fiscal Year 2003

Nursing Home	Semi-Private Room Rate	Medicaid Room Rate Plus VA Per Diem	Medicaid and VA Over/(Under) Semi-Private Rate
Fitzsimons	$219.00	$187.22	($31.78)
Florence	$162.00	$189.15	$27.15
Homelake	$146.00	$191.70	$45.70
Rifle	$175.00	$214.74	$39.74
Walsenburg	$151.00	$188.42	$37.22

Source: Auditor analysis of rate information provided by the Department of Human Services and federal Department of Veterans Affairs.

[1] The Trinidad Home is not included in this analysis because it is not a VA-certified facility.
[2] This analysis reflects the VA per diem rate of $56.24 per day in place for Federal Fiscal Year 2003 and the specific Medicaid rate for Fiscal Year 2003 for each facility. The Medicaid rates ranged from $130.98 to $158.50 per day.

As part of our audit, we contacted several sources to determine whether the Division's handling of the VA per diem was allowable under federal Medicaid regulations. The Department of Health Care Policy and Financing, the state agency charged with administering the Colorado Medicaid program, and the federal Centers for Medicare and Medicaid Services Regional Office verbally indicated that the Division's decision to no longer treat VA per diem payments as third-party payments under the Medicaid program is not consistent with federal regulations. In addition, a state supreme court decision in the State of Montana (June 2002) and a state appeals process in Virginia (October 2002) have affirmed that the VA per diem should be considered as a third-party payment and offset against the Medicaid liability. Federal law states that state Medicaid agencies are required to "take all reasonable measures to ascertain the legal liability of third parties…to pay for care and services available under the [state's Medicaid] plan." Federal regulations define a third party as "any individual, entity or program that is or may be liable to pay all or part of the expenditure for medical assistance furnished under a State plan."

The Department of Human Services has represented in the past that Medicaid billings would continue to be offset by VA per diem payments. For example, planning documents prepared for the Fitzsimons facility indicate that the State would benefit from the introduction of a VA-certified state veterans nursing home because Medicaid billings, which include a 50 percent general fund match, would be partially offset by funding received through the VA per diem, which is entirely funded by federal monies.

To support its policy change, the Division reports that it determined that the VA per diem under the federal state home program is a daily operating grant to the homes and, therefore, is considered to be a contribution toward the operation of the facility and its mission. The Department of Human Services appears to have relied, in part, on a 1994 administrative decision from the state of California for its policy change. This settlement decision made by the California Department of Health Services found that VA per diem payments constituted aid provided by the federal government to state veterans homes that provide care for veterans and, therefore, should not be categorized as third-party resources available to veteran beneficiaries. As such, the Division believes that the per diem should not be considered a benefit payable on behalf of an individual veteran. However, for private pay veterans — in other words, those patients not eligible for Medicaid — we noted that the Division continues to instruct its facilities to deduct the VA per diem from the home's daily billing rate and bill these residents for only the net amount. Thus, Medicaid-eligible veterans and private pay veterans are treated differently in how the VA per diem payment is applied.

The Division's change in policy for the handling of the VA per diem payments resulted in potential Medicaid overpayments equal to all VA per diem payments received for Medicaid-eligible veterans since the change was implemented. We have not analyzed individual Medicaid billings or VA reimbursements for each patient. However, based on our review of Medicaid and veteran census data for each of the VA-certified homes, we estimate that Medicaid potential overpayments, or questioned costs, could total approximately $1.3 million and $2.8 million for Fiscal Years 2002 and 2003, respectively, or a total of $4.1 million for both years ($2.05 million each in state general funds and federal funds). On the basis of our estimate, we have shown the split of the potential impact between state general funds and federal funds in Table 3.

Table 3. State and Veterans Nursing Homes
Estimated General Fund and Federal Fund Impact of Billing Change
Related to VA Per Diem Payments
Fiscal Years 2002 and 2003[1]

	General Fund Impact	Federal Fund Impact	Total Impact
Fiscal Year 2002	$650,000	$650,000	$1,300,000
Fiscal Year 2003	$1,400,000	$1,400,000	$2,800,000
Total	$2,050,000	$2,050,000	$4,100,000

Source: Census information provided by each state and veterans nursing home; VA per diems per Federal Register.

[1]Fiscal Year 2002 and Fiscal Year 2003 amounts were calculated using Medicaid, veteran patient days multiplied by the VA per diem rate in effect at the time.

The homes have always received Medicaid payments because they have served Medicaid-eligible veterans. However, the Division's new treatment of VA payments is likely the primary reason for the significant increase in Medicaid payments to these homes during Fiscal Years 2002 and 2003 compared with prior years. Overall, Medicaid revenue to the VA-certified homes increased from $6.2 million in Fiscal Year 2001 to $7.5 million and $9.6 million in Fiscal Years 2002 and 2003, respectively, or 55 percent over the time period. The increase in Medicaid payments also means that there has been a substantial increase in general funds provided to the homes, since the State shares the cost of the Colorado Medicaid program equally with the federal government. Although the Department anticipated that the policy change would result in significant increased Medicaid revenue to the homes, the Department did not provide any documentation to us that the new policy was approved by either the state or federal Medicaid agency.

We believe the Department should work with the federal Centers for Medicare and Medicaid Services to determine if its current policy of not offsetting Medicaid billings with the VA per diem is appropriate and allowable. Under the existing practice, the amount of questioned costs owed to the federal government continues to accumulate on a daily basis. If it is determined that the Department's current Medicaid billing practice is unallowable under the federal Medicaid program, the Department should also work with the Department of Health Care Policy and Financing (HCPF) to determine the appropriate steps for identifying and reporting the amount of Medicaid program overpayments. Reverting to the previous practice of offsetting Medicaid billings with VA per diem payments will cause the homes to realize less Medicaid revenue than anticipated under the current policy; thus, the Division must review and make appropriate revisions to its current and future budgets to reflect the expected reduction in Medicaid revenue and to anticipate funding necessary to repay the Medicaid overpayments.

The Department must also review the effect of the current VA per diem policy on Medicaid residents and non-Medicaid, private-pay residents and ensure that inconsistencies are eliminated through policy changes. Specifically, the Department should not collect a higher payment from a Medicaid veteran than from a non-Medicaid veteran. Further, the Department should implement a formal procedure for conferring with HCPF on any Medicaid billing changes to determine whether the change is in accordance with state and federal Medicaid laws and regulations. The Department should submit proposed changes in writing to HCPF for its review and approval prior to implementing the change.

(CFDA Nos. 93.777 and 93.778; Medicaid; Activities Allowed or Unallowed, Allowable Costs/Cost Principles.)

Recommendation No. 69:

The Department of Human Services should work with the federal Centers for Medicare and Medicaid Services to determine if its current Medicaid billing policy in relation to VA per diem payments is appropriate and allowable. If determined unallowable, the Department should work with the Department of Health Care Policy and Financing to determine the appropriate steps for identifying and reporting all resulting Medicaid program overpayments since the inception of the revised policy as of December 2001.

Department of Human Services Response:

Agree. The Division will communicate with the federal Centers for Medicare and Medicaid, along with the federal Department of Veterans Affairs to determine if its current Medicaid billing policy in relation to VA per diem operating grant payments is appropriate and allowable. The Department of Human Services will work with the Department of Health Care Policy and Financing and the Office of the State Auditor on an ongoing basis as well, and will identify steps to reconcile any disallowances.

Currently a number of states are operating with different scenarios, many similar to Colorado's. As this is a national issue affecting many states throughout the country, it will require national clarification and is an anticipated lengthy process.

Implementation date: June 2004.

Recommendation No. 70:

The Department of Human Services should implement a formal procedure for consulting with and receiving approval from the Department of Health Care Policy and Financing for policy changes that affect billings to the Medicaid program. This should include submitting proposed changes in writing to the Department of Health Care Policy and Financing for review and approval prior to implementation.

Department of Human Services Response:

Agree. The Department will implement a formal procedure for conferring with the Department of Health Care Policy and Financing on any future Medicaid billing changes to determine whether the change is in accordance with state and federal Medicaid laws and regulations. The Department will submit proposals in writing to the Department of Health Care Policy and Financing for its review and approval.

Implementation date: December 2003.

Department of Health Care Policy and Financing Response:

Agree. The Department will develop and implement a protocol with the Department of Human Services to ensure that proposed billing policy changes are cleared and transmitted in writing by the Executive Director of the Department of Human Services, or an appropriately delegated representative, to the Executive Director of the Department of Health Care Policy and Financing, or an appropriately delegated representative. The Executive Director of the Department of Health Care Policy and Financing, or an appropriately delegated representative, will approve or reject such changes, and send written notice of the approval or rejection of the proposal to the Executive Director of the Department of Human Services.

Implementation date: December 2003.

Recommendation No. 71:

The Department of Human Services should review the effect of the current VA per diem policy on Medicaid residents and non-Medicaid, private-pay residents and ensure that any inconsistencies caused by policy changes are eliminated.

Department of Human Services Response:

Agree. The Department will review the effect of current VA per diem operating grant policy on Medicaid and non-Medicaid residents and ensure that inconsistencies are eliminated through policy changes.

Implementation date: Upon implementation of Recommendation No. 69.

Oversight of Nursing Home Billings

Our audit found that the Department of Health Care Policy and Financing did not have adequate procedures in place to identify the significant Medicaid payment increases experienced by the state and veterans nursing homes as the result of the change in policy described above. This indicates a need for increased oversight of nursing home billing practices by the Department of Health Care Policy and Financing. Our 1999 performance audit, *Medicaid Fraud and Abuse Programs*, indicated a need for that Department to address gaps in current nursing facility audit practices to more quickly identify anomalies in billing practices. The report specifically identified a problem with overpayments made to nursing homes due to overlapping billing periods. Our current finding regarding the change in billing practices related to the VA per diem reimbursement in this report again indicates a need for improved oversight and monitoring of nursing facility billing practices.

(CFDA Nos. 93.777 and 93.778; Medicaid; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Subrecipient Monitoring.)

Recommendation No. 72:

The Department of Health Care Policy and Financing should address gaps in current nursing facility audit practices by developing analytical tools and procedures to identify significant changes in reimbursements received by providers and investigate these instances as appropriate.

Department of Health Care Policy and Financing Response:

Agree. The findings of the OSA audit demonstrate a clear need for better controls over Medicaid nursing home billing practices. The failure of providers to appropriately offset resources can substantially impact general fund expenditures. Like many other state Medicaid agencies, the Department relies upon a post-payment audit process, and associated sentinel effect, to ensure program integrity in this area. The Department recently expanded the scope of its post-pay review activities through implementation of a contract with an external audit firm. However, the existence of a post-payment review process cannot prevent a participating nursing home from failing to offset resources against charges appropriately when it bills for Medicaid services. The only way to do so is to develop claims system controls that will automate the offset of income and other resources at the point of claim adjudication. The development of such claims system controls would likely be costly, and would have to be justified in terms of improved cash flow and reduced administrative burden. In the interim, the Department will develop statistical reports to reduce the likelihood that inappropriate changes in nursing home billing practices go unnoticed for an extended period of time.

Implementation date: March 2004.

Department of Labor and Employment

Introduction

The Department of Labor and Employment (DOLE) is responsible for providing services to employers and job seekers and enforcing laws concerning labor standards, unemployment insurance, workers' compensation, public safety, and consumer protection. Please refer to the introduction in the Department of Labor and Employment chapter within the Financial Statement Findings section for additional background information.

Workforce Investment Act Overview

The Workforce Investment Act (WIA) emphasizes state and local flexibility in providing employment and training services to clients. Its guiding principles give local officials significant authority to establish workforce programs tailored to meet the specific needs of employers and job seekers in local and regional labor markets. At the same time, WIA regulations and state statutes assign responsibility to the Department for oversight of the workforce regions, including providing guidance and monitoring. Specifically:

- 20 CFR part 661.120 (WIA rules) states, "The State should establish policies, interpretations, guidelines and definitions to implement provisions of ... WIA ... [that] are not inconsistent with the Act and the regulations ...."

- Section 8-71-223(2), C.R.S., states, "The Department shall provide ongoing consultation and technical assistance to each work force investment area for the operation of work force investment programs."

- Federal Office of Management and Budget (OMB) *Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D.400(d)(3) states that the Department, as a pass-through entity for federal funds, shall "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws [and] regulations and ... that performance goals are achieved."

- 20 CFR part 667.410 states, "Each [State] ... must conduct regular oversight and monitoring of [the] ... WIA activities ... of its subrecipients and contractors in order to: (1) determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act ... (2) determine ... compliance with other provisions of ... applicable laws and regulations; and (3) provide technical assistance as necessary and appropriate."

During Fiscal Year 2003 the Office of the State Auditor conducted a performance audit of the Workforce Development Programs. The audit comments below were contained in the *Department of Labor and Employment and Governor's Office of Workforce Development Performance Audit*, Report No. 1503, dated June 2003.

In accordance with WIA's principles of providing a strong role for local workforce investment boards, Colorado's philosophy has been to give the local regions as much control as possible over the program's operations. Within their local authority, the workforce centers use various methods to determine the level of employment services needed by each client. First, all clients must meet basic eligibility criteria to be enrolled in WIA. For the Adult program, clients must be 18 years of age or older. For the Dislocated Worker program, clients must be 18 years of age or older; have been terminated or laid off (or have received a notice of termination or layoff) and be unlikely to return to a previous industry or occupation; or be displaced homemakers. For the Youth program, clients must be aged 14 through 21 years, meet low-income criteria, and have barriers to employment such as being deficient in basic literacy skills. Up to 5 percent of youth served are not required to be low-income if they meet the other eligibility criteria.

Any clients meeting these basic criteria can be offered WIA core services. Clients who cannot obtain employment or a self-sufficient wage through core services may progress to WIA intensive services, such as the development of an individual employment plan, and to training assistance, such as occupational skills training. They may also receive supportive services, such as gas vouchers or child care. Larger workforce centers tend to use a committee approach for approving training: a counselor presents a training proposal for a client and the committee decides whether to approve it. Smaller centers typically allow individual counselors to make training decisions with guidance from their supervisors. The determination to provide supportive services usually occurs when the center offers either intensive or training services to the client.

Although local flexibility is emphasized by WIA, the State is still ultimately responsible for how funds are spent, as noted above. The Department carries out its oversight and monitoring roles by establishing Program Guidance Letters (PGLs) that inform the regions of federal requirements, by assigning a Departmental representative to each region to conduct ongoing monitoring and provide technical assistance, by performing annual on-site compliance monitoring visits to the regions, and by completing yearly financial audits of all regions and subregions.

We reviewed the Department's general oversight, guidance, and monitoring of the regions and noted a number of concerns, as discussed in the following comments.

Controls Over Program Expenditures

The Department has allocated, on average, over $15 million annually in WIA funds to the State's workforce regions in the past three years. Although these funds have allowed the regional workforce centers to provide training and employment services to an average of over 7,000 adult, dislocated worker, and youth clients each year, they are not unlimited and are not sufficient to provide services to everyone who may benefit from them. Department staff estimate that current funding only allows the program to serve about 5 percent of those who could use WIA's services. The lack of funding is further illustrated by the fact that for State Fiscal Year 2003, five of the nine workforce regions had obligated at least 90 percent of their WIA Adult allocations and four had obligated at least 90 percent of their Dislocated Worker allocations by December 31, 2002, or halfway through the fiscal year. Three of these regions, as well as one subregion, indicated that as of January 2003, they could not afford to fund training assistance for any new clients, whatever their level of need, until the next fiscal year because they were out of training money.

Constraints on resources within the WIA program make it critical that the workforce centers use the funds as effectively as possible by making appropriate decisions regarding the type and amount of assistance to provide to clients. If workforce centers use funds for clients who do not need assistance, or to provide assistance that does not promote accomplishment of the program's goals, they diminish the value of the program. We found that the workforce centers sometimes provide services that do not clearly meet the requirements of WIA.

Questionable Expenditures

According to OMB *Circular No. A-133*, which provides guidance for the Single Audit Act, the Office of the State Auditor is responsible for reporting on questioned costs for federal awards. As part of our audit, we reviewed 142 WIA case files from the five workforce regions and seven subregions that we visited across the State. The focus of our review was on evaluating whether expenditures were made in accordance with the WIA rules discussed below. We found that the case files did not always justify that expenditures were made in accordance with these federal guidelines, thus increasing the risk of errors, irregularities, and federal recoveries of unallowable expenditures, and potentially reducing the effectiveness of the funds in accomplishing WIA objectives. We identified concerns with both supportive services and training expenditures for WIA clients, as described below.

Supportive Services: WIA rules at 20 CFR part 663.805 state that supportive services may only be provided:

- To individuals who are unable to obtain supportive services through other programs providing such services; and
- When they are necessary to enable individuals to participate in WIA activities.

Furthermore, OMB *Circular No. A-87*, Attachment A(C)(1)(a), states that expenditures must "be necessary and reasonable for proper and efficient performance and administration of Federal awards."

We reviewed 78 case files for clients who received some type of supportive service. We question expenditures for 27 of the cases (35 percent) which did not appear to be in compliance with the federal requirements that supportive services only be provided when they are necessary for client participation in WIA and are unavailable from other sources. For the most part, we found examples of supportive services that were not justified in accordance with federal regulations in files from WIA's Adult and Dislocated Worker programs, including the following:

- One client who received $2,900 in supportive services to assist with moving expenses associated with a new management-level position. The client had accepted this job before enrolling into WIA and thus did not appear to need any WIA services at all.
- One client who received a total of $1,200 in rent payments for three separate months. It was unclear why the region paid rent for three months when its regional policy was to pay rent no more than once and there was no evidence that this assistance was unavailable from other sources.
- One client who received $1,000 in car repair expenses, although it was unclear that the client was receiving any WIA services at the time this supportive service was provided. As a result, the case does not appear to meet the requirement that the supportive service was necessary for the client to participate in WIA.

- One client who received $822 in mileage reimbursement to travel from the state of Washington back to Colorado. The client attended a training program in Washington and intended to relocate there. The client made the trip during a break in the training program. This expenditure does not appear to meet any of the criteria cited above for supportive services expenditures.

- One client who received $240 in gas vouchers from a workforce center to help with transportation to training classes, even though the file's log notes indicated that the client intended to attend the classes with or without the center's help. The client's intention of attending training without the center's assistance indicates that supportive services were not necessary for this client's participation in WIA, as required by federal rules.

Overall, we question about $11,000 (52 percent) of about $20,700 expended for supportive services in the files we reviewed. Although some of these cases involved small amounts of supportive services funds, many clients receive small amounts on multiple occasions. In addition, we found the existence of questionable costs in cases that were spread throughout the State, which indicates that weaknesses in the determination of need for supportive services is a systemic problem.

Training: 20 CFR part 663.240(b) states that a client's case file must " ... contain a determination of need for training ..." and 20 CFR part 633.310 states that training services are available to adults and dislocated workers who:

- Have been determined to be unable to obtain or retain employment through intensive services.

- Have the skills and qualifications to successfully complete the selected training program.

- Select a training program that is directly linked to employment opportunities in the local area or in another area to which the individual is willing to relocate; and

- Are unable to obtain grant assistance from other sources to pay the costs of such training.

Section 8-71-218.5(2), C.R.S., also establishes criteria for providing training services, stating:

> "Access to training services, as specified in the federal act, shall be available to participants who have met eligibility requirements for intensive services, are unable to obtain or retain employment through

> such services, are determined ... to be in need of such services, and are eligible for such services as specified in the federal act ...."

We reviewed 89 files for clients who were approved for WIA training services. On the basis of our review, we question expenditures for 13 of the cases (15 percent) that were not clearly in compliance with the federal requirements for providing training services listed above. Some of the questionable files in our sample included:

- One client who received $4,635 in assistance for a computer programming course, despite the fact that the client's region was experiencing large layoffs in high-tech fields and there were no clear employment opportunities directly linked to the training program. Although the client obtained employment after completing the course, there was no indication that the job was related to the training received. In fact, the case notes showed that the client had not even taken the test to earn certification in this computer program eight months after completing the certification class work.

- One client who received $3,965 in assistance for tools and training as a wooden boat-builder in Washington state. Although WIA permits regions to approve training for classes held in other states, the regions still have an obligation to ensure that training is directly linked to occupations in demand. In this case, the region did not independently verify information provided by the client that boat-building was a demand occupation in Washington. At the time of our review, this client had completed training and obtained employment in Washington that was similar to a former position held in Colorado and unrelated to the training. The client was continuing to pursue training-related employment as well as considering opening a business in an unrelated field.

- One client who received $2,500 in training assistance to pursue a real estate finance course. The client had previously received real estate training through the same workforce center and had not been able to find employment in that field. The log notes documented the counselor's concern that the client would not be successful in finding employment in real estate with the additional training. The client had not obtained employment in the real estate field two years after finishing this additional course.

- One client who received $1,000 in training assistance to attend a preparation course for the police academy entrance exam. The workforce center's assessments of the client revealed limited skills in certain areas, including math and reading, which indicated that the client may not have had the skills necessary to be successful with this training program. At the time of our review, the client had not, 17 months after completing the training, passed the police academy entrance exam in two attempts.

In all, we question about $29,100 (17 percent) of the approximately $174,300 expended for training services in the files we reviewed. Although we cannot project these amounts, or those from the supportive services review, to the entire population of WIA expenditures, the fact that we question costs in cases at 10 of the 12 workforce centers we visited raises concerns about the extent to which funds may be used for supportive and training services that are not entirely justified.

Documentation

In addition to the questioned expenditures described above, we found that some case files did not contain adequate documentation for us to determine if the expenditures were appropriate. Specifically, of the 78 files we reviewed where supportive services were provided to the client, 23 (29 percent) lacked documentation that would allow a reviewer to determine if the expenditure complied with federal requirements for providing supportive services, as described above. Of the 89 files we reviewed where training was approved, 10 (11 percent) lacked documentation that would allow an independent reviewer to determine if the expenditure met the requirements for providing training services. Due to the lack of documentation, we were unable to conclude on whether $5,100 in supportive services (25 percent of the $20,700 we reviewed) and about $19,900 in training services (11 percent of the $174,300 we reviewed) were justified in accordance with WIA rules.

As noted above, one reason it is critical for WIA funds to be used as directed by federal rules is that there are insufficient resources to serve all clients who may need or benefit from employment and training services. An additional concern is that many people who receive training services do not find employment that is related to their training. WIA requires that training provided to clients be directly linked both to occupations in demand and to a client's skills. As a result, we would expect that there would be a relatively high correlation between training and job placement if the WIA rules are followed. However, according to Department data, in State Fiscal Year 2002, only 57 percent of adults and 36 percent of dislocated workers obtained employment related to their training. These statistics do not include clients who received basic, prevocational classes like the GED, ESL, or certain basic computer skills classes; they reflect clients who have chosen specific training programs that should be linked directly to employment opportunities as required by WIA. Although it is reasonable to expect that some clients will not obtain jobs specifically pertaining to the training they receive, these data suggest that the training programs approved by the regions are not always necessary or appropriate for clients to obtain employment, which may mean that the regions are not spending their training funds effectively.

We believe one reason workforce centers may not always strictly apply WIA rules in approving and documenting training and supportive services is that the Department's policies and guidance on this issue are incomplete. Although the State has issued Program Guidance Letters (PGLs) that discuss determining and documenting the need for training and supportive services, we found the letters lack some essential information. Specifically, none of the PGLs:

- State that WIA case files must contain a determination of the need for training, as stipulated by WIA rules.

- Provide guidance on how to determine and document that training is provided only to clients who cannot obtain a job through intensive services and that the training is directly linked to employment opportunities.

- Mention that supportive services are available only when the services are "necessary," as stipulated in WIA rules, or otherwise provide guidance as to what makes supportive services "necessary" for a client to participate in WIA.

- Require documentation to show that the regions referred a client to other sources for supportive services or that other assistance was not available.

Providing such direction is an appropriate role for the Department, which, according to 20 CFR part 661.120(b), should "establish policies, interpretations, guidelines, and definitions" to implement WIA's provisions. The Department has provided this type of guidance with regard to determining and documenting basic program eligibility. For example, PGL #01-03-WIA1 includes a technical assistance manual on determining eligibility that specifies what documents meet WIA's requirements for justifying eligibility and suggests how to use those documents to determine basic eligibility. We did not identify a problem with regions serving clients who did not meet these basic eligibility criteria during our file review, which may indicate that specific guidance is effective in helping the regions accurately apply WIA requirements.

In addition, we found the local workforce regions have not developed any criteria to define and document the need for intensive and training services. We reviewed all the regional policies on WIA training and supportive services and did not find any that contained specific language to define what demonstrated "need" or "justification" for these services. Some regions reported to us that they do not consider "need" to mean only financial necessity, but also consider need to include logistical necessity, meaning that, for example, they may provide gas vouchers if a client will be driving his or her car to apply for jobs, regardless of the client's financial situation.

Finally, since the Department has not established specific policies regarding the need for clients to receive training or supportive services, Department staff do not have specific guidance for monitoring this issue. As a result, the state field representatives who monitor the regions have not consistently identified the lack of justification as a problem. Between March and June of 2002, the state field representatives conducted on-site compliance reviews of eight of the workforce regions and three of the subregions. These reviews covered the regions' operations for State Fiscal Year 2001 and the first half of Fiscal Year 2002. We reviewed all 11 of the reports resulting from these reviews and found that five noted a lack of justification for training services and three noted concerns with supportive services expenditures. The Department has provided technical assistance and training to address these issues but has not modified its written policies or guidance to improve justification systemwide. As monitors and technical assistants, the state field representatives are in an ideal position to both note weaknesses in the regions' processes and identify appropriate solutions. They could use their familiarity with the regions to develop appropriate guidance regarding justification for services that would integrate into the processes currently in place.

Appropriately determining the need for services is critical to promote effective use of WIA funds and achievement of the Act's goals and performance measures. Documentation of the determination is important to provide evidence of compliance with federal requirements including WIA provisions and OMB standards, such as *Circular No. A-87*, which lists factors for determining the reasonableness of costs, including whether they follow the requirements of "sound business practices" and demonstrate that the regions "acted with prudence" in fulfilling their responsibilities. Documentation also allows for evaluation, by the regions, the Department, and the federal government, of the appropriateness of expenditures to minimize the risks of fraud and maximize the effectiveness of the programs.

We believe the Department should work with the regions to ensure the most effective use of limited resources. The Department should offer additional guidance to the workforce regions on how they should determine and demonstrate in their case files that clients need training and/or supportive services. For training services, this guidance should address all of WIA's training criteria, and for supportive services it should address all of WIA's supportive services criteria. In addition, the Department should require the regions to establish local policies that are consistent with the Department's guidance and should monitor the regions in accordance with these State and local policies.

(CFDA Nos. 17.258, 17.260; WIA Adult, WIA Dislocated Worker; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility.)

Recommendation No. 73:

The Department of Labor and Employment should improve controls over the use of WIA funds by working with the regions to ensure that limited funds are used effectively in compliance with WIA requirements and to promote achievement of WIA's goals. This effort should include:

a. Revising policies on training and supportive services to provide additional guidance to the regions in determining and documenting the need for such services in each case. This guidance should address all the criteria contained in federal regulations that apply to the provision of training and supportive services.

b. Ensuring that regions adopt policies and practices consistent with the Department's additional guidance through its monitoring efforts.

Department of Labor and Employment Response:

a. Agree. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding training and supportive services. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

   Implementation date: December 31, 2003.

b. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring process, which occurs between January and June of each program year. This will begin in January 2004, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding training and supportive services. In this event, the Department anticipates completion of this recommendation in the first annual compliance monitoring cycle that follows the publication of the final regulations governing the new legislation.

Implementation date: June 2004.

Priority of Service for Low-Income Adult Clients

The WIA Youth and Adult programs recognize the importance of providing employment and training services to low-income clients. In the Youth program, low-income status is one of the basic eligibility criteria. In the Adult program, service priority must be given to low-income individuals whenever funds are limited. Specifically, 20 CFR Part 663.600 states:

> ... in the event that funds allocated to a local area for adult employment and training activities are limited, priority for intensive and training services ... must be given to recipients of public assistance and other low-income individuals .... *Since funding is generally limited*, States and local areas *must* establish criteria by which local areas can determine the availability of funds and the process by which any priority will be applied .... States and local areas *must* give priority for adult intensive and training services to recipients of public assistance and other low-income individuals, unless the local area has determined that funds are *not* limited .... (Emphasis added.)

The rule goes on to say that the local workforce board and the Governor may establish processes that allow the regions to serve other clients while still giving low-income persons priority. However, the regulations indicate that, by default, funding should be considered limited unless determined otherwise in accordance with specific criteria. This approach seems appropriate for Colorado because Department staff have indicated that current funding only allows it to serve about 5 percent of those who could use WIA's services. In addition, as noted earlier, a number of regions were running short of training funds halfway through State Fiscal Year 2003. Specifically, five of the nine workforce regions had obligated at least 90 percent of their WIA Adult funds for State Fiscal Year 2003 by December 31, 2002. Three of these regions, as well as one subregion, reported to us in January 2003 that they had no funds remaining at that time for training assistance for new clients.

We found that the State has not established criteria to help local areas determine the availability of funds, as required by federal regulation, and has not provided any guidelines to help define "limited" funds. Instead, according to PGL #00-12-WIA1, the Colorado Workforce Development Council has issued a policy stating that the workforce regions will make the determination of whether their Adult program dollars are limited. The PGL does not mention the section of WIA rules noted above that states "... State and local areas must give priority ... to ... low-income individuals, unless ... [they have] determined that funds are not limited."

In addition, we noted problems with some local policies on this issue. Specifically:

- Four regional policies conflict with the section of WIA rules that clearly states that local areas *must* give priority to low-income individuals unless they have determined that their funds are *not* limited. These regions' policies state the reverse -- that they will *not* give priority to low-income individuals unless they determine their funds *are* limited at some future point.

- Most regions have not established specific criteria to determine the availability of funds, and their policies on priority of service are generally vague. One region, for example, has a policy to prioritize service whenever "the volume of customers seeking intensive services exceeds the resources available, as determined by the ability to provide services in a reasonable time frame," without defining "reasonable time frame." Another region's policy is to prioritize service when "it appears that funding will be insufficient to cover projected expenditures." The ambiguity of this wording makes it difficult to know under what fiscal conditions the region would begin prioritizing service.

- Two regions with policies that appear to mandate a priority system at all times reported to us that they have not consistently implemented such a system.

We spoke with the State's federal monitor for WIA, who confirmed that WIA rules state that funding should generally be considered limited, but also pointed out that the determination of funding availability is made by the states and workforce regions. The Department has requested federal guidance on this issue, but the response from the U.S. Department of Labor (USDOL) did not clarify whether funds should be considered limited unless there is a determination otherwise in accordance with established criteria.

As a result of the vague and conflicting criteria relating to limited funding and priority of service, we found that many of the workforce regions and subregions have only recently begun to consider their funds limited and therefore give priority for services to low-income participants in the Adult program. We contacted 18 of the State's 19 regions and subregions and reviewed their policies for determining limited funding and priority of service for low-income adults. We found only six regions and subregions had priority of service systems in place when WIA went into effect on July 1, 2000; four regions and subregions had invoked their priority-of-service policies by the end of State Fiscal Year 2002; and another four implemented priority of service systems in State Fiscal Year 2003. Therefore, 14 of the 18 regions and subregions we contacted had implemented their priority-of-service policies at the time of our audit, while 4 had not. Three of the four regions that had not implemented priority of service systems at the time of our audit, and two of the four that invoked their systems in State Fiscal Year 2003, were running low on Adult funds by the end of December 2002, as noted above.

Although many of the regions have responded to the increasing demands on their Adult programs by putting low-income priority systems for adults in place, the percentage of low-income clients being served is decreasing. In State Fiscal Year 2001, low-income people comprised 75 percent of the total population in the WIA Adult program and 79 percent of those who received training services. By State Fiscal Year 2003, low-income adults made up 57 percent of the total population in the WIA Adult program and 55 percent of those receiving training services. Therefore, low-income adults are no more likely to receive training services now, when the number of clients has grown nearly 175 percent from State Fiscal Year 2001 to 2003 and WIA adult allocations to the regions have decreased about 19 percent, than they were at the beginning of the program.

That the local regions have not consistently given priority to low-income clients in the WIA Adult program is ultimately a concern because some individuals most in need of intensive and training services may not be receiving them. Section 195(1) of WIA states: "Each program under this title shall provide employment and training opportunities to those who can benefit from, and who are most in need of, such opportunities ...." Although low-income individuals are not the only persons who may need WIA services, their low-income status means they are inherently less likely than more affluent clients to have the financial resources to obtain training or job preparation services on their own.

Ensuring that the workforce regions give priority to low-income individuals in the WIA Adult program, unless their funds have been determined to be unlimited as specified by federal rules, would also help the State fulfill one of WIA's stated purposes, reducing welfare dependency. By giving low-income individuals better access to services that could assist them in obtaining employment, the regions could reduce these clients' need for public assistance. In short, giving priority to low-income individuals in the Adult program makes sense from a public policy perspective.

We recognize that other programs, such as Welfare-to-Work and Temporary Aid to Needy Families (TANF), offer some assistance similar to WIA. However, WIA allows for a broader definition of "low-income" so that economically disadvantaged individuals who do not qualify for programs like TANF can be assisted through WIA without duplication of services. WIA also encourages coordination with these other programs so that funds can be leveraged to produce better results.

Finally, consistently maintaining priority systems is important because WIA funding levels can fluctuate. According to the Department, preliminary figures from the USDOL indicate that Colorado's WIA allocation for State Fiscal Year 2004 will increase by $7 million over 2003. Although the regions may be inclined to discontinue their priority systems in light of this increased funding, it is unlikely that these additional resources will be sufficient to provide services to all clients who need them, so funding will still be limited.

(CFDA Nos. 17.258, 17.260; WIA Adult, WIA Dislocated Worker; Other.)

Recommendation No. 74:

The Department of Labor and Employment should clarify the circumstances under which funds can be considered limited or not limited for purposes of offering priority of service to low-income clients in the Adult program by:

a. Developing criteria to help the regions determine the availability of funds.

b. Working with the regions to expand and clarify regional policies to be consistent with the Department's criteria and to contain specific criteria for determining funds availability.

c. Ensuring that the regions maintain priority systems for low-income clients in the Adult program unless the regions demonstrate that funds are not limited in accordance with state and local criteria.

Department of Labor and Employment Response:

a. Disagree. Because Colorado has a long-established policy of local control of workforce programs, the Department stands by its policy to allow local workforce investment boards to set their own priority of service criteria and policies.

   Implementation date: Not applicable.

b. Agree. The Department agrees with providing additional technical assistance as needed to regions wishing to further define criteria for identifying when funds are limited. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding priority of services. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

   Implementation date: December 31, 2003.

c. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring reviews, which occur between January and June of each program year. This will begin in January 2004, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change federal requirements regarding priority of services. In this event, the Department anticipates completion of this recommendation in the first annual compliance monitoring cycle that follows the publication of the final regulations governing the new legislation.

   Implementation date: June 2004.

Auditor's Addendum:

This is not an issue of local control. We agree that Colorado's program promotes local design and implementation. The issue addressed in this recommendation is prioritizing the use of limited funding for the benefit of those with the greatest financial need, in line with WIA rules and objectives.

Comprehensive Monitoring

Formal on-site monitoring reviews of the regions are conducted annually by the Department's state field representatives. They use a formal monitoring tool as a guide for interviewing workforce center staff and examining local policies and case files. We reviewed the monitoring tool, a sample of monitoring files, and all the reports prepared by the state field representatives from their monitoring of the regions for State Fiscal Year 2002. We noted a number of concerns with the monitoring process.

Reviewing Case Files in All Subregions. In their monitoring of the Rural Consortium Region, the state field representatives did not review case files from 7 of the 10 subregions operating during the review period of July 2000 through December 2001 (Broomfield was not fully operational during the period and is not included in the count of 10 subregions). The Department selected three of the subregions to review, focusing on regions that were less experienced in providing employment and training services, or that had experienced problems prior to the time of the monitoring reviews. In addition, the Department indicated that resource constraints require some prioritization of monitoring efforts and that it will rotate Department-level reviews to cover all the subregions over a period of several years.

Federal law does not require all subregions within a region to undergo an annual on-site review and we agree that targeting resources is important. However, we believe that in order to implement a reliable risk-based monitoring system, the Department needs to collect and analyze independent information on how all the subregions are operating. Without conducting some on-site monitoring of all the subregions, the Department is limited in the information available for this purpose. For example, we reviewed files at six of the eight subregions that were not monitored and we question WIA expenditures at five of them, as discussed earlier in this chapter. The rural subregions that were not monitored by the Department represent 23 percent of the files for which we question training expenditures and 33 percent of the files for which we question supportive services expenditures. This kind of information is important for the Department to have in determining the timing and frequency of on-site reviews of the subregions.

Monitoring All Discretionary Grants. In reviewing the state field representatives' monitoring files and reports, we did not find evidence that they had monitored some of the discretionary grants when they conducted their annual on-site visits to the regions in the spring of 2002. The Department reserves a portion of WIA and Wagner-Peyser funds each year and uses some of the reserved amounts, as well as other state and federal funds, to offer discretionary grants to the workforce regions. Funds reserved from the WIA Adult and Youth grants are administered by the Governor's Office of Workforce Development (OWD), while the other reserved and additional amounts are managed by the Department. In State Fiscal Year 2003 the Department and the Office offered about $6 million in discretionary funding to the regions from these sources.

We could find no evidence that the state field representatives had monitored about $600,000 in discretionary grants during on-site monitoring visits to the regions in March through June of 2002. An additional $500,000 of discretionary grants were not monitored because the Department did not conduct on-site monitoring of seven of the subregions in the Rural Consortium, as mentioned above. Department staff stated that the state field representatives are only required to review grants that directly provide client services. While the Department's PGL on monitoring does state that "on-site monitoring will consist of ... examination of case files for each program and discretionary grant that provides client services," it also states that on-site reviews will be done for each WIA funding stream, including discretionary grants. Furthermore, we found some OWD grants that directly serve clients that were not monitored during the on-site visits.

Duplication of Monitoring. Both Department and Office of Workforce Development staff conduct some on-site monitoring of the WIA discretionary grants. In State Fiscal Year 2003, OWD contract staff began conducting on-site visits to all regions with OWD discretionary grants to assess the status of grant projects. There were 14 regions with WIA discretionary grants in effect during State Fiscal Year 2003. Time records are not maintained to specifically track how these contract staff spend their time, but according to data provided by the OWD, we roughly estimate these staff will spend at least 180 hours during this state fiscal year monitoring the WIA Adult and Youth discretionary grants at a cost of about $7,000. Since the state field representatives must visit the regions annually to conduct monitoring, it is more cost-effective for them to review all grants rather than having OWD pay for additional staff to carry out essentially the same duties. According to the Department and OWD, beginning in July 2003 the OWD will no longer have staff conducting on-site monitoring of the grants and the state field representatives will take on those monitoring duties.

Consistent Monitoring Procedures. Although the same monitoring tool is used for all annual workforce compliance reviews, we found some variations in monitoring procedures that can lead to a lack of sufficient oversight. Specifically, we found:

- **Variations in how the state field representatives verified that regions had required policies and Memoranda of Understanding (MOUs) in place.** In accordance with Department requirements, all regions must have written policies addressing a variety of program elements. According to WIA regulations, local regions must have written MOUs with all WIA partner programs (such as postsecondary vocational education programs and veterans workforce programs). We found instances in which state field representatives indicated they reviewed a sample of policies or MOUs, rather than reviewing all, which may not provide adequate oversight. For example, we found one region did not have one of the required written policies at the time of our audit, although the monitoring report for the region indicated that all policies had been reviewed by the field representative. Furthermore, noncompliance with the federal requirement for MOUs could result in ineligibility for state incentive grants.

- **Inconsistencies in how the state field representatives assessed the region's compliance with its own policies.** Five monitoring reports did not indicate that the region was in compliance with its own policies. According to Department staff, compliance with local policies should be evaluated during the monitoring reviews.

We believe the Department should take steps to ensure that its monitoring process is comprehensive and consistently applied by including some file reviews at each Rural Consortium subregion each year, monitoring and documenting the review of all discretionary grants, and formalizing monitoring procedures in a written format.

(CFDA Nos. 17.258, 17.260; WIA Adult, WIA Dislocated Worker; Subrecipient Monitoring.)

Recommendation No. 75:

The Department of Labor and Employment should improve its compliance monitoring process by:

a. Collecting and analyzing data on the operations of all subregions to use in developing a reliable risk-based system for subregion monitoring. This effort should include reviewing some case files from each subregion for the first several years of operation to provide a baseline of information for future risk-based reviews.

b. Ensuring that all discretionary grants provided to the regions and subregions are monitored by the state field representatives in their annual monitoring visits to the regions and that the monitoring is documented.

c. Promoting consistency in monitoring by formalizing procedures in written guidance and training for the state field representatives.

Department of Labor and Employment Response:

a. Disagree. The Department field representatives will monitor the Rural Consortium internal monitoring reports for each sub-region annually. On-site monitoring will occur in subregions selected on the basis of a risk analysis. The U.S. Department of Labor has agreed with the Department's approach to monitoring the subregions of the Rural Consortium.

   Implementation date: Not applicable.

b. Agree. The Department anticipates implementation of this recommendation during its annual compliance monitoring reviews, which occur between January and June of each program year. This will begin in January 2004.

Implementation date: June 2004.

c. Agree. The Department anticipates completion of this recommendation by December 31, 2003, provided that the reauthorization of the Workforce Investment Act, anticipated for the fall of 2003, does not change substantially change program requirements. In this event, the Department anticipates completion of this recommendation within 90 days of the publication of the final regulations governing the new legislation.

Implementation date: December 31, 2003.

Auditor's Addendum:

As noted in the report narrative, we agree that using a risk-based system can be a cost effective approach to monitoring and we recognize that the Department is not required by federal regulation to conduct on-site monitoring of all subregions each year. Part "a" of the recommendation does not address compliance with federal regulations. It focuses on the need for the Department to collect and use data about the subregions, through independent monitoring in the first few years of the program, to provide a baseline on which to assess risk for future monitoring efforts. Having such information is particularly important because the audit found questioned costs at five of six subregions that were not monitored by the Department in its State Fiscal Year 2002 on-site monitoring process.

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Office of the State Treasurer

Introduction

The Office of the State Treasurer (Treasury) is established by the State Constitution. The Treasurer is an elected official who serves a four-year term. Please refer to the introduction in the Office of the State Treasurer chapter within the Financial Statement Findings section for additional background information.

The following was prepared by the public accounting firm of Grant Thornton, LLP, which performed the Fiscal Year 2003 audit work at the Office of the State Treasurer.

Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) regulates the transfer of funds between federal and state agencies for federal grants. The CMIA regulations require the State to match the disbursement of state general funds for federal programs with federal reimbursement. States are required to enter into a Treasury-State Agreement (Agreement) with the U.S. Treasury. This Agreement specifies the procedures that the State will follow to carry out the matching of disbursements and reimbursements.

The State has completed the fourth year of the current Agreement. The Agreement lasts five years (through Fiscal Year 2004) and may be modified by either party.

Treasury changed financial institutions in Fiscal Year 2003. Under the provisions of the CMIA, Treasury should evaluate the reasonableness of clearance patterns for payments issued by the State whenever a significant change, as defined in the CMIA, occurs. A change in financial institutions would be a significant change because clearance patterns could be significantly different.

Without a review of clearance patterns, the State could potentially earn interest on federal funds in excess of amounts allowable by the federal government, which would result in a liability to the United States Treasury. On the other hand, if the State drew down federal funds later than allowable by the federal government, the State could potentially lose interest. An evaluation of clearance patterns under the new financial institution would ensure that the State has achieved interest neutrality as required by the Act.

(See Appendix A, Treasury, for listing of applicable CFDA Nos.; Cash Management.)

Recommendation No. 76:

The Office of the State Treasurer should review and evaluate the reasonableness of the clearance patterns for payments issued by the State, given the change in financial institutions during Fiscal Year 2003.

Office of the State Treasurer Response:

Agree. The Office of the State Treasurer will calculate new clearance patterns for payments issued by the State in the third quarter of 2004 after payment data for a complete fiscal year become available.

Implementation date: September 2004.